



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 27, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Shiner
Charter Number 5628**

**103 W. 7th
Shiner, TX 77984**

**Comptroller of the Currency
San Antonio-North Field Office
10101 Reunion Place Boulevard, Suite 402
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NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of The First National Bank of Shiner as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of September 30, 2002. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The First National Bank of Shiner's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The bank's loan-to-deposit ratio is reasonable given the bank's resources, local credit needs, and local competition.
- A substantial majority of loans and other lending-related activities are within the bank's assessment area (AA). Based on our sample, 84% of the number of loans and 92% of dollar of loans were granted within the AA.
- The distribution of loans reflects reasonable penetration among individuals of different income levels with a strong penetration among businesses and farms of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The bank received no CRA-related complaints since the previous CRA examination.

DESCRIPTION OF INSTITUTION

First National Bank of Shiner (FNB), a \$114 million institution, was chartered in 1900. FNB, an independently owned community bank with no affiliation with a bank holding company, is one of six community banks headquartered within the AA. The bank's one office consists of a drive-up motor bank, a walk-in teller lobby, and an ATM. FNB is a full-service bank. Although FNB has traditionally emphasized agricultural lending, it also offers a reasonable array of loan and deposit products that accommodates both commercial (small business and agriculture related) and consumer lending that includes residential, motor vehicles, and household goods. On

December 13, 2002, the bank purchased the Shiner branch of Guaranty Federal Savings. FNB does not plan to open the branch but will merge approximately \$32 million into its deposit structure.

On September 30, 2002, net loans comprised 37% of FNB’s total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Composition As of September 30, 2002		
Loan Category	\$ (000)	%
Agriculture	16,213	54
Commercial	7,323	24
Consumer	3,784	12
Residential	2,983	10
Gross Loans	30,303	100

There are no legal, financial, or other factors impeding the bank’s ability to meet the credit needs of its AA. The last CRA performance evaluation was done on August 3, 1998, and the bank was rated “Satisfactory.” There have been no changes in the bank’s corporate structure.

DESCRIPTION OF ASSESSMENT AREA

FNB has designated all of Gonzales and Lavaca counties as its AA. The AA, which is not included in a metropolitan statistical area, includes the cities and communities of Shiner, Yoakum, Hallettsville, Gonzales, and Moulton. The AA includes twelve block-numbering areas (BNAs), nine of which are designated middle-income, with the remaining three BNAs designated as moderate-income. There are no low- or upper-income BNAs in the AA. The level of households below the poverty level is 20%. The 2002 non-MSA updated median family income for Lavaca and Gonzales counties is \$36,100. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Shiner is located 84 miles east of San Antonio and roughly 150 miles west of Houston. The city of Shiner has a current population of 2,070, up slightly from the 1990 Census of 2,000. Economic conditions are currently stable. The economy of the AA is largely dependent upon farming, ranching, and small businesses. Additional demographic and economic characteristics of the AA are presented on the following page.

FNB’s competition consists of five independent community banks, and a branch of a large bank headquartered outside the AA.

This office conducted one community contact with one of the religious leaders in FNB’s AA. The contact identified small business, home improvement and consumer loans as credit needs in Lavaca and Gonzales counties. The contact was favorable in his comments about the performance of FNB and its participation in the community.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	9,804
Number of Households	13,551
Geographies	
Number of Census Tracts/BNAs	12
% Low-Income Census Tracts/BNAs	0
% Moderate-Income Census Tracts/BNAs	25
% Middle-Income Census Tracts/BNAs	75
% Upper-Income Census Tracts/BNAs	0
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
2002 HUD-Adjusted MFI	\$36,100
2001 HUD-Adjusted MFI	\$35,800
2000 HUD-Adjusted MFI	\$34,700
1999 HUD-Adjusted MFI	\$33,900
1998 HUD-Adjusted MFI	\$32,100
Economic Indicators	
Unemployment Rate-AA November 2002	3.4%
Unemployment Rate-State November 2002	6.3%
Unemployment Rate-National November 2002	5.7%
2002 Median Housing Value	\$40,141
% of Households Below Poverty Level	25%

SAMPLING INFORMATION

Our review focused on FNB's three main product lines: agricultural, commercial, and consumer loans. In each of the three main product lines, we sampled 20 loans where the bank collected income information. For the *Lending to Borrowers of Different Incomes*, *Lending to Businesses and Farms of Different Sizes* and *Geographic Distribution of Loans* analyses, we omitted the loans made outside of the AA and added loans to get to the minimum sample size of 20 loans per product line. The lack of street addresses and income information in the credit files limited our loan sample of commercial loans inside the AA to 18. All loans sampled were originated between September 30, 1998 and December 31, 2002.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNB has demonstrated satisfactory performance in meeting the credit needs of the AA, including low- and moderate-income families, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

FNB's LTD ratio is reasonable given the bank's size, no branch locations, and strong competition from banks in its AA and other surrounding communities. Hill Bank and Trust, People State Bank, and First National Bank of Shiner are in similar size towns with populations of less than 2,500 residents as noted in the 2000 Census. First State Bank-Yoakum, American National Bank, and Lone Star Bank are in larger communities of 5,000 or more residents, and they have branches in other cities. Yoakum National Bank is located only 13 miles away and the bank is in a larger community with greater loan demands. Refer to the table below.

Institution	Assets as of 9/30/02 (000s)	Average LTD Ratio 12/31/98 - 9/30/02
Hill Bank and Trust Co	95,628	23%
People State Bank of Hallettsville	111,253	34%
<i>First National Bank of Shiner</i>	79,327	42%
First State Bank – Yoakum	84,242	45%
Yoakum National Bank	111,538	53%
American National Bank	136,107	69%
Lone Star Bank	97,265	89%

Lending in Assessment Area

A substantial majority of the bank's lending-related activities are within the AA. From our sample, we determined that 84% of loans by number (or 92% by dollar volume) are made to borrowers located within the AA. The following table shows the bank's lending activities in and out of the AA by type of loan sampled. This reflects an excellent record of affording credit within the AA.

Total Loans Reviewed								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	18	100	4,168	100	0	0	00	0
Agriculture	15	75	507	56	5	25	404	44
Consumer	16	80	152	79	4	20	41	21
Total Reviewed	49	84	4,827	92	9	16	445	8

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

FNB demonstrates reasonable penetration when lending to businesses and farms of different sizes and to individuals with different income levels. A sample of 18 combined commercial and commercial real estate loans, 20 agricultural, and 20 consumer loans made within the AA were used for this evaluation. We equally considered each of these loan products in the overall rating for this assessment factor.

The wide distribution of loans to borrowers with varying income levels reflects favorably on the bank's lending activities. The following tables summarize the distribution of FNB's lending for commercial, agriculture, and consumer loans.

Distribution of Borrowers by Income Level								
Consumer								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Household	29		16		16		39	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1998	0	0	0	0	0	0	0	0
1999	0	0	0	0	5	5	10	18
2000	0	0	0	0	5	5	0	0
2001	15	5	5	5	0	0	0	0
2002	15	4	15	3	5	15	25	40
Total	30	9	20	8	15	25	35	58

FNB made the majority of its farm and business loans to businesses and farms with gross annual revenues of less than \$1 million. The following tables illustrate the lending distribution to farms and businesses located within the bank's AA. A small business or a small farm is defined as a business or farm with gross annual revenues of less than \$1 million.

Borrower Distribution of Loans To Businesses (Non-Farm)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94	6
% of Bank Loans in AA (by number)	67	33
% of Bank Loans in AA (by \$)	26	74

The above table shows that 26% of the dollar volume of sampled business loans was to businesses earning less than \$1 million in gross revenues. Our sample included one large loan for \$1.8 million to a business with gross annual income of more than \$1 million. That one large loan skewed the percentage for the dollar volume of loans in the AA. As noted in the above table, 94% of the businesses in the AA earn less than \$1 million in gross revenues, and the bank originated 67% of the number of loans to small businesses.

Borrower Distribution of Loans To Farms		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	95	5
% of Bank Loans in AA (by number)	90	10
% of Bank Loans in AA (by \$)	93	7

The above table shows that FNB made 90% of the number of loans and 93% of the dollar volume of sampled loans to farms earning less than \$1 million in gross revenues. The figures highlight the bank's strong commitment to these borrowers.

Geographic Distribution of Loans

The geographic distribution of loan originations within the AA is reasonable. As previously noted, the AA has nine middle-income BNAs, and three moderate-income BNAs that are located in Gonzalez County. Census bureau information indicates that only 20% of the families in the AA live in the three moderate-income areas. A contributing factor to the low penetration of consumer, business, and agriculture loans in the moderate-income BNAs is the distance between the bank's one office in Lavaca County and the moderate-income BNAs located on the far side of Gonzales County. The three moderate-income BNAs are better served by other local financial institutions that are within the AA and closer to those tracts. Additionally, other financial institutions in adjacent counties are closer to the tracts than is FNB. Therefore, it is reasonable that the bank has little lending activities in those moderate-income tracts as reflected in the tables that follow.

Distribution of Business Loans (Non-Farm) by Tract Income Level								
Census Tract Income Level	LOW (None)		MODERATE		MIDDLE		UPPER (None)	
% of AA Businesses	0		23		77		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1998	-	-	0	0	6	1	-	-
1999	-	-	6	2	11	10	-	-
2000	-	-	0	0	22	51	-	-
2001	-	-	0	0	6	3	-	-
2002	-	-	0	0	49	33	-	-
Totals	-	-	6	2	94	98	-	-

Distribution of Farm Loans by Tract Income Level								
Census Tract Income Level	LOW (None)		MODERATE		MIDDLE		UPPER (None)	
% of AA Farms	0		16		84		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1998	-	-	0	0	0	0	-	-
1999	-	-	0	0	0	0	-	-
2000	-	-	0	0	5	1	-	-
2001	-	-	10	69	15	4	-	-
2002	-	-	5	2	65	24	-	-
Totals	-	-	15	71	85	29	-	-

Distribution of Borrowers by Tract Income Level Consumer								
Census Tract Income Level	LOW (None)		MODERATE		MIDDLE		UPPER (None)	
% of AA Tracts	0		25		75		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1998	-	-	0	0	0	0	-	-
1999	-	-	5	10	10	13	-	-
2000	-	-	0	0	5	5	-	-
2001	-	-	0	0	20	10	-	-
2002	-	-	5	15	55	47	-	-
Total	-	-	10	25	90	75	-	-

Responses to Complaints

First National Bank of Shiner received no complaints during this evaluation period.

Fair Lending Review

We found no violations of anti-discrimination laws. An analysis of public comments and complaints from 1998 through 2002, along with the results of the most recent fair lending examination conducted on August 3, 1998, suggest the bank has an excellent record of complying with anti-discrimination laws.