



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 2, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Saint Jo
Charter Number 5325**

**Main and Howell Streets
Saint Jo, TX 76265**

**Comptroller of the Currency
ADC Michael K. Hughes - Dallas North
17300 Dallas Parkway, Suite 2020
Dallas, TX 75248**

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

This institution is rated Satisfactory.

The First National Bank of Saint Jo (FNB) has a satisfactory record of meeting community credit needs. This rating is based upon the following:

- A majority of loans sampled, representing 70% of the number and 72% of the dollar volume, originated within the bank's assessment area;
- The average loan-to-deposit ratio of 62% meets the standards for satisfactory performance;
- The commercial loan sample reflects a good penetration of credit made to businesses with revenues of less than \$1 million.

DESCRIPTION OF INSTITUTION

FNB is a \$ 30 million community bank located in Saint Jo, Texas. It is wholly owned by Saint Jo Bancshares, Inc., a one-bank holding company, which is in turn 100% owned by First Financial Company of Saint Jo (a Delaware corporation). FNB serves approximately the eastern half of Montague County and the western third of Cooke county through two banking locations: (1) the main office in Saint Jo at Main and Howell streets, and (2) a branch in Muenster, Texas located nine miles east of Saint Jo.

Both locations have drive-up facilities. Extended hours are offered on Friday with the main bank's drive up and lobby open till 5:00 and 5:30PM, respectively. The Muenster branch also remains open until 6:00 PM on Fridays. FNB also offers telephone banking through its VoiceAccess System.

FNB is a full service institution, providing various deposit and loan products. Management's lending focus is one-to-four family residential mortgage loans, commercial loans, and small dollar consumer credit.

The following table portrays the principal loan mix of FNB:

Loan Category	\$ (000)	%
Residential Real Estate	5,394	35.2
Commercial	2,190	14.3
Consumer	2,076	13.6
Commercial Real Estate	1,981	12.9
Agricultural production and other loans to farmers	1,892	12.4
Farmland	977	6.4
Construction & Development	337	2.2
Other Loans	431	2.8
Obligations of states and political subdivisions in the U.S.	27	<1
Total	\$15,305	100%

FNB was rated “Satisfactory” in its previous CRA public evaluation dated April 9, 1998. The bank continues to operate without any financial or legal obstacles that affect its ability to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

FNB’s assessment area consists of three Block Number Areas (BNA’s), two in Montague County (#9501 – Saint Jo and #9506 – Forestburg), and one in Cooke County (9902 – Muenster). These BNA’s are continuous areas and encompass the majority of the bank’s normal trade area. The bank’s assessment area is reasonable and meets the requirements of the regulatory guidelines and does not arbitrarily exclude any low-or moderate-income areas. The following table reflects the demographics for the assessment area (AA):

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	2,234
Number of Households	2,888
<i>Geographies</i>	
Number of Census Tracts	3
# - % Low-Income Census Tracts	0 – 0%
# - % Moderate-Income Census Tracts	0 – 0%
# - % Middle-Income Census Tracts	2 – 67%
# - % Upper-Income Census Tracts	1 – 33%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$28,624
1998 HUD-Adjusted MFI	\$32,100
1999 HUD-Adjusted MFI	\$33,900
2000 HUD-Adjusted MFI	\$34,700
2001 HUD-Adjusted MFI	\$35,800
2002 HUD-Adjusted MFI	\$36,100
<i>Economic Indicators</i>	
Unemployment Rate	5.5*
2002 Median Housing Value	\$43,868
% of Households on Social Security	34%
% of Households Below Poverty Level	16%
% of Households on Retirement	12%

*Blended rate based on March 2003 Bureau of Labor Statistics (BLS) Data for Montague and Cooke Counties, TX

The total occupied housing units are 73% with owner-occupied housing at 60%, rental-occupied housing at 13%, and vacant housing units are high at 26%.

The Saint Jo and Muenster area is considered a moderately competitive banking environment with two other financial institutions present, consisting of one state bank, and a branch of larger national bank. The economy of the area is stable with little growth. The services industry is the largest employment segment. The local school districts are large employers. Nortex Communications, a telephone service company located in Muenster, is the area's largest firm.

The credit needs of the community were determined through interviews with individuals associated with the City of Saint Jo and the Muenster Chamber of Commerce. The credit needs mentioned include long-term low interest rate home mortgage loans, real estate remodeling and rehabilitation loans, down payment assistance, and small consumer and business loans. The community contacts also indicated area financial institutions are cooperative and active in trying to meet the community's credit needs. It was specifically mentioned that FNB works more actively than other institutions in the area to meet the credit needs of younger individuals who often lack an extensive credit history.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The March 31, 2003 Call Report indicates that the largest portion of FNB's loan portfolio consists of residential real estate loans. The next largest distribution is commercial loans. We sampled both types of credit. The sampled loans originated between January 1, 1999, and December 31, 2002. We did not select any loans originated from January 1, 2003 to June 2, 2003 because 2003 Census information was not available to perform an adequate analysis regarding those loans made during that time frame.

Overall, FNB is meeting the standards of satisfactory performance. During this evaluation period, 4,363 loans were originated totaling \$44.4 million. The bank's strengths are lending within its assessment area and originating small dollar commercial credits and residential real estate loans that are disbursed throughout its assessment area. Although we did not analyze FNB's performance regarding consumer loans, we did determine that management annually extends 22% of its total number of loans with original balances of \$1 thousand or less.

Lending in Assessment Area

Based on our review of FNB's lending patterns, the bank meets the standards of satisfactory performance. Our sample of 20 residential loans, and 20 commercial loans revealed 70% were within the bank's assessment area, totaling \$1.2 million or 72%.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential real estate	14	70	785	65	6	30	415	35
Commercial	14	70	468	86	6	30	75	14
Total Reviewed	28	70%	\$1,253	72%	12	30%	\$490	28%

Loan-to-Deposit Ratio

FNB's average loan-to-deposit (LTD) ratio is 62%. As of March 31, 2003, FNB had a "net loans to total assets" ratio of 56%. Given the bank's size, financial condition, and assessment area credit needs, the bank meets the standard for satisfactory performance.

The 19-quarter average LTD ratio is favorable when compared to other financial institutions within the assessment area. Information for these financial institutions is detailed in the following table:

Institution	Assets ('000's) As of 3-31-2003	Average LTD Ratio
National Peer Group	25,000 – 50,000	69%
Guaranty NB, Gainesville, TX	173,461	69%
Legend Bank NA, Bowie, TX	269,252	65%
The FNB, Saint Jo, TX	30,266	62%
First State Bank, Gainesville, TX	223,245	51%
Muenster State Bank, Muenster, TX	71,070	34%

The demographic composition of the bank's trade area, particularly around the Muenster location, consists of a heavily German heritage. There is a strong cultural bias towards avoiding debt. This has a restrictive effect on local lending opportunities as many potential borrowers prefer to save for any major purchase rather than borrowing a larger balance to speed asset acquisition. The high percentage of retired (12%) and fixed income residents (34%) also reduces local loan demand.

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

The bank meets the standard for satisfactory performance in lending to borrowers of different incomes and to businesses of different sizes.

FNB has originated an adequate number of loans to businesses with revenues of less than \$1.0 million. We reviewed a sample of 20 commercial loans totaling \$672 thousand originating within the bank's assessment area. Of the loans sampled, 18 were made to businesses with revenues of less than \$1.0 million. These loans totaled \$400 thousand. The following table illustrates the bank's lending penetration to businesses of different sizes:

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	90%	10%
% of Bank Loans in AA #	70%	30%
% of Bank Loans in AA \$	86%	14%

We reviewed a sample of 20 residential real estate loans originated within the bank's assessment area. FNB's residential real estate lending to low-income borrowers is in need of improvement in comparison to the percentage of low-income families within the assessment area. The lack of penetration of home loans to low-income borrowers is partially attributed to a large portion of the bank's assessment area being on a fixed income.

The financial requirements of closing costs and down payments are more feasible for middle- and upper-income borrowers when purchasing a home. Typically, borrowers with higher

incomes are able to produce these funds, which many lower income borrowers are unable to do. Also, the impact of aggressive national mortgage loan companies in the current low interest rate environment has virtually absorbed any potential refinancing activity. Management reports almost weekly payoffs of existing mortgage loans due to refinancing through other financial firms. The bank is unable to match mortgage broker loan terms, such as 30- and 15-year maturities at fixed interest rates of less than 6%.

The bank's level of lending to moderate- income borrowers is satisfactory. The number of loan originations at 15% approximates the portion of the population in the assessment area that falls within this demographic segment

The following table reflects the bank's penetration of residential real estate lending in the assessment area:

RESIDENTIAL LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	16%		14%		20%		50%	
LOANS by TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Residential Real Estate	0	0	15	5	15	15	70	80

In addition to the residential real estate analysis, we reviewed loans that had original balances of \$1 thousand or less to better assess the bank's lending to low- and moderate-income individuals. We reviewed loan originations for 2001 and 2002 and used the loan size as a proxy of income level. It is presumed that most of these loans would be to borrowers of low- or moderate-income levels, as higher income individuals would typically utilize credit card or other lines of credit for small dollar loans. This analysis revealed that 22% of loan originations were for small dollar amounts.

VOLUME OF SMALL LOANS OF 1,000 OR LESS				
Year	Number of Loans	% of Originations	\$ Amount (000's)	% of \$ Volume
2002	243	21.6%	143	1.2%
2001	296	22.2%	181	1.4%
Average	270	21.9%	162	1.3%

Geographic Distribution of Loans

The geographic distribution of loans within low- or moderate- income areas is not applicable to this analysis, as the assessment area contains no BNA's which are designated low or moderate. However, a review of the physical location of the loans in the residential real estate and commercial loan samples revealed that the bank has a reasonable dispersion of loans throughout its assessment area.

Responses to Complaints

FNB has not received any CRA related complaints during this evaluation period.

Fair Lending Review

An analysis of five years public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on the analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1995.