



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 21, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number: 12619

1001 Main Street
Amherst, TX 79312

Office of the Comptroller of the Currency

Lubbock (West Texas) Field Office
5225 South Loop 289 Suite 108
Lubbock, TX 79424-1319

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.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The First National Bank of Amherst (FNB) has a satisfactory record of meeting community credit needs. This is based on the following:

- The bank's loan-to-deposit ratio is reasonable and averaged 22 percent during the evaluation period.
- A substantial majority of FNB's loans are within the bank's assessment area (AA). Based on a sample of loans, 82 percent of the number of loans and 88 percent of the dollar volume of loans were to borrowers within the AA.
- FNB has excellent penetration among individuals of various income levels, including low- and moderate-income, in the AA. FNB has a reasonable distribution among farms of different sizes within the AA.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

This Performance Evaluation assesses FNB's record of meeting the credit needs of the community in which it operates. We evaluated FNB under the small bank performance criterion, which includes four performance criteria: the loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, and responses to CRA-related complaints.

To evaluate FNB's lending performance, a random sample of loans was taken based on the bank's primary loan types. Primary loan types are those products that have been originated at the highest percentages by dollar and/or number of loans. Primary loan products during this evaluation period consist of agricultural and consumer loans. The loan sample consisted of 25 agricultural and 30 consumer loans originated between July 2005 and September 2010.

DESCRIPTION OF INSTITUTION

FNB is a rural community bank in Amherst, Texas, which is approximately 50 miles northwest of Lubbock, Texas. FNB is an intrastate bank with one main office.

As of September 30, 2010, FNB had total assets of approximately \$19 million, with 18 percent in the loan portfolio. The bank is primarily an agricultural lender. The following chart details a breakdown of FNB's loan portfolio as of September 30, 2010.

Loan Portfolio Composition as of September 30, 2010		
Loan Type	\$ (000)	%
Agriculture	1,262	36.89
Commercial	722	21.10
Commercial Real Estate	486	14.21
Consumer	461	13.48
Agriculture Real Estate	319	9.32
Political Subdivisions	156	4.56
Residential Real Estate	15	0.44
TOTAL	3,421	100.00%

Source: September 30, 2010 Call Report

Bank lobby services are provided Monday through Friday, with banking hours of 9:00 am to 3:00 pm. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FNB has the ability to meet the various credit needs in its community. The bank was rated "Satisfactory" at the last examination on July 25, 2005. No legal impediments or other factors hinder FNB's ability to provide credit in its AA.

FNB's business strategy is to provide banking services to customers in Lamb County while increasing the long-term value of the owners' investment. FNB's Tier 1 capital level was \$3.3 million, representing 17.93 percent of adjusted average assets, as of September 30, 2010. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

DESCRIPTION OF LAMB COUNTY

FNB is located in the city of Amherst and has designated Lamb County as its AA. Lamb County is situated on the northern edge of the South Plains and is located approximately 50 miles northwest of Lubbock, Texas. The city of Littlefield is the largest city in Lamb County and is the county seat. Smaller communities also within the AA include Earth, Fieldton, Olton, Springlake, and Sudan. Specific demographic data and economic data for this area are listed below.

Demographic and Economic Characteristics of Lamb County AA	
Population	
Number of Families	3,998
Number of Households	5,361
Geographies	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	20.0
% Middle-Income Census Tracts/BNA	80.0
% Upper-Income Census Tracts/BNA	0
Median Family Income (MFI)	
2000 MFI for AA	36,380
2010 HUD-Adjusted MFI	46,500
Economic Indicators	
Unemployment Rate	3.2
2004 Median Housing Value	35,358
% of Households Below Poverty Level	19.0

Source: 2000 Census data and HUD updated income data.

The bank's AA is comprised of five contiguous census tracts. This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The five census tracts are comprised of four middle-income census tracts and one moderate-income census tract. Federal agencies have designated the four middle-income census tracts as distressed non-metropolitan tracts due to population loss and the rural remote location.

Based on 2000 Census data, the AA has a total population of 14,709. There are 6,294 housing units in the AA, of which 64 percent are owner-occupied, 21 percent are renter-occupied, and 15 percent are vacant. Approximately 25 percent of the families in the AA are considered low-income. Moderate-income families approximate 21 percent of the population, while middle- and upper-income families comprise the remaining 54 percent.

The local economy is agricultural based and supports a variety of agricultural crops including grain sorghum, cotton, corn, wheat, and soybeans. In addition, several dairy operations have moved into the area. Due to the size of the dairy operations, small community banks in the area cannot accommodate the lending needs. The largest non-agricultural employers within the AA include Correctional Services Corporation and the area school districts.

Competition is high in the AA with seven financial institutions, two credit unions, and a finance company. Capital Farm Credit also has an office in Littlefield.

As part of this CRA examination, a community contact was made in the bank's AA to help ascertain credit needs. According to the contacts, the financial institutions of Lamb County are meeting the credit needs of the community, including those of low- and moderate-income neighborhoods.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination is from July 2005 through September 2010, except for the loan-to-deposit ratio. The loan-to-deposit ratio was calculated from September 2005 through September 2010. FNB's performance is satisfactory, and management has been successful in meeting the credit needs of the bank's AA, including lending to farms of different sizes and individuals of different income (including low- and moderate-income) levels.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable given the bank's size and financial condition and the credit needs of the AA. The bank's quarterly average ratio was 22.3 percent since the third quarter of 2005. During the evaluation period, FNB's loan-to-deposit ratio ranged from 12.8 percent to 32.0 percent. The average loan-to-deposit ratio of similarly situated banks within or contiguous to the AA for the same period was 54.0 percent. Although FNB's loan-to-deposit ratio continues to be lower than similarly situated banks, the AA has several other banks that are closer to larger communities in the AA.

There are two issues which have caused FNB's loan-to-deposit ratio to remain low. The first issue is a lack of loan demand. FNB has historically been an agricultural lender. The City of Amherst has few employment opportunities, and it is hard for businesses to weather the local economy. The second issue is competition in the area. There are a number of financial institutions in the area. Due to Amherst's low employment, many residents work and shop in surrounding cities such as Littlefield and Sudan. Many of these residents also do their banking in these areas.

The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the AA is listed below. Please note that these banks are listed alphabetically by city, and no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 03/31/05)	Average Loan-to-Deposit Ratio
Aimbank, Littlefield	204,248	77.65
First Bank of Muleshoe	95,892	33.83
First National Bank, Amherst	18,841	22.30
First Security Bank, Abernathy	25,068	53.08
Security State Bank, Farwell	96,005	51.53

Source: Institution Reports of Condition from September 2005 to September 2010.

Lending in Assessment Area

A substantial majority of the bank’s loans were made within its AA. In order to assess performance for this criteria, we reviewed 30 consumer and 25 agricultural loans originated between July 2005 and September 2010. Our analysis determined that 82.0 percent of the number of loans and 88.0 percent of the dollar amount of loans in the sample were extended within the bank’s AA. The breakdown by loan category is illustrated in the following table.

Lending in Lamb County AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	25	83	5	17	30	230	83	46	17	276
Agriculture	20	80	5	20	25	2,191	89	271	11	2,462
Totals	45	82	10	18	55	2,421	88	317	12	2,738

Source: Sample of loans used for CRA performance analysis

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

FNB’s loan portfolio reflects a reasonable distribution among individuals of various income levels (including low- and moderate-income) and farms of different sizes within its AA. To perform our analysis, we reviewed income information of 20 agricultural and 25 consumer loans in the Lamb County AA.

Agricultural Loans - Based on 2010 Business Demographic Data, there are 261 farms within the Lamb County AA. Of this number, 93.6 percent of farms reported revenues less than or equal to \$1 million. Of the loans in the agricultural sample, 95.0 percent of the number of loans and 86.3 percent of the dollar amount of loans were to farms reporting annual revenues below \$1 million. This level is comparable with the AA information and reflects good penetration of agricultural loans to small farms. The following chart reflects the results of our selected sample of agricultural loans originated in this AA.

Borrower Distribution of Loans to Farms in Lamb County AA

Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	93.6	4.5	1.9	100%
% of Bank Loans in AA by #	95.0	5.0	0.0	100%
% of Bank Loans in AA by \$	86.3	13.7	0.00	100%

Source: Loan sample; Dunn and Bradstreet data

Consumer Loans - Our analysis reflects an excellent penetration of consumer loans to low- and moderate-income households in the Lamb County AA. Based on 2000 Census information, 44.4 percent of households in the AA are low- and moderate-income. Our review determined that 68 percent of consumer loans were made to low- and moderate-income households. The distribution of consumer loans exceeds the income characteristics of the AA for low- and moderate-income households. The following chart reflects the results of our selected sample of consumer loans originated in this AA.

Borrower Distribution of Consumer Loans in Lamb County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	24.8	20.0	19.6	48.0	18.9	28.0	36.7	4.0

Source: Loan sample; 2000 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of loans within the census tracts is reasonable given the bank’s business strategy and location. Our analysis included 20 agricultural and 25 consumer loans originated from July 2005 through September 2010. For both loan types sampled, there was limited performance in the moderate-income census tract. The moderate-income census tract includes the city of Littlefield, where several financial institutions have offices. The four middle-income census tracts have been designated as distressed non-metropolitan tracts due to population loss and the rural remote location.

Agricultural Loans - The performance in the moderate-income census tract was lower than the demographic composition of the AA. The moderate-income census tract is located approximately six miles southeast of the city of Amherst. The following chart reflects the results of our selected sample of small farm loans originated in FNB’s AA.

Geographic Distribution of Loans to Farms in Lamb County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Farms	0.00	0.00	16.98	5.00	83.02	95.00	0.00	0.00

Source: Loan sample; Dunn and Bradstreet data

Consumer Loans - Our analysis indicated that the geographic distribution of loans in the moderate-income area was somewhat lower for consumer loans than the demographic composition of the AA. As previously detailed, the moderate-income area is located approximately six miles southeast of the city of Amherst. The moderate-income census tracts in the AA have also been designated as distressed. The following chart reflects the results of our selected sample of consumer loans originated in FNB’s AA.

Geographic Distribution of Consumer Loans in Lamb County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	25.48	16.00	74.52	84.00	0.00	0.00

Source: Loan sample; 2000 U.S. Census data.

Responses to Complaints

No complaints relating to CRA performance have been received by FNB, and this has a neutral impact on the bank’s performance.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.