



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 18, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Seymour
Charter Number 4263

201 North Washington Street
Seymour, TX 76380

Office of the Comptroller of the Currency

FORT WORTH Field Office
9003 Airport Freeway Suite 275
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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.

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

First National Bank of Seymour's (FNB) lending performance reflects satisfactory responsiveness to its community's credit needs. This assessment is based on the following conclusions:

- FNB's average loan-to-deposit ratio is reasonable given its size, financial condition, local competition, and assessment area credit needs.
- A significant majority of FNB's loan activity is within its assessment area.
- The distribution of loans demonstrates reasonable penetration among individuals of different income levels and businesses of different sizes.

SCOPE OF EXAMINATION

FNB has two assessment areas; Baylor County and Motley County. The majority of lending activity occurs in the Baylor assessment area (AA), which is the focus of our review. We did not review activity out of the Motley AA. Our review focused on FNB's two primary product lines: general consumer and general agriculture loans. The consumer portfolio, only represents 8.5% of the dollar amount of the bank's loans. However, this portfolio represents 60% of the total number of loans extended, indicating a large number of small dollar loans. FNB has two other significant product lines; general commercial and industrial loans, and commercial real estate loans. These portfolios contain fewer loans at higher amounts and there was not a sufficient number of loans in these portfolios to draw reasonable samples. Our samples included;

- 20 loans from the general consumer portfolio.
- 20 loans from the general agriculture portfolio.

We omitted loans from the above samples if they were outside of the AA, and replaced them with loans inside the AA when assessing the ***Lending to Borrowers of Different Incomes***, and ***Lending to Businesses of Different Sizes*** components. There were no low- or moderate-income geographies in the Baylor AA; so, a ***Geographic Distribution of Loans*** analysis would not be meaningful. The loans included in the sample originated between August 14, 2006 and March 11, 2011, and were selected at random.

DESCRIPTION OF FIRST NATIONAL BANK OF SEYMOUR

FNB is a rural community bank chartered and located in Seymour, Texas, approximately 50 miles southwest of Wichita Falls, Texas. The bank operates from the main facility in downtown Seymour and a branch in Matador, Texas. The Matador facility is located about 80 miles northeast of Lubbock, Texas in Motley County. Drive-up service is offered at the main bank facility. The bank does not offer Automated Teller Machines (ATMs). FNB is a subsidiary of Baylor Bancshares, Inc. (BBI), which is a multi-bank holding company. Other banks under BBI's ownership include Memphis State Bank, First National Bank of Whitney, and Citizens State Bank of Princeton. All of these banks are small community banks located in the state of Texas. The holding company also owns 100% of Baylor Mortgage Company, Inc., an operating subsidiary. The corporate structure of the holding company has not changed since the prior CRA examination.

FNB is a full-service community bank offering a wide variety of loan and deposit products, including full internet banking with free bill pay and debit/gift cards. The bank also has a trust department. As of December 31, 2010, FNB had total assets of \$45.5 million, loans of \$8.5 million, and deposits of \$41.1 million. The following table presents FNB's loan information as of December 31, 2010.

Loan Category	\$ (000)	%
Agricultural Production/Other Agricultural	\$4,111	48.6%
Commercial	\$2,052	24.3%
Commercial Real Estate	\$1,349	15.9%
Consumer Loans	\$718	8.5%
Other Loans	\$229	2.7%
Total	\$8,459	100.00%
Total Loans as a % of Total Assets	18.6%	

FNB has a conservative credit underwriting policy. A large portion of the bank's customer base is comprised of elderly members of the community who have their life savings on deposit with the bank. They view the bank as a safe place to have these deposits because of the well-known conservative lending standards and perceived low level of risk in the bank.

Primary competition comes from two other financial institutions located in Seymour: a branch of a Texas state-chartered bank, and a branch of an Oklahoma state-chartered bank. Secondary competition is offered by non-bank institutions including Capital Farm Credit, Farmers Home Administration, John Deere Credit Corporation, and the Federal Land Bank. Remote competition is posed by financial institutions in nearby Vernon, Texas and Wichita Falls, Texas.

The most recent CRA examination was performed as of August 14, 2006. The bank received a satisfactory rating at that examination. There are no legal or financial impediments to the bank's ability to meet the credit needs of its AA.

DESCRIPTION OF BAYLOR AND MOTLEY COUNTIES

FNB defines its AAs as Baylor County and Motley County. The AAs are legal and meet the requirements of the regulation. They are not contiguous with one another and are treated as separate AAs. Approximately 5,500 persons live within the AAs. Neither county is in a Metropolitan Statistical Area (MSA). Seymour is the largest community in Baylor County and Matador is the largest community in Motley County. There are a total of three census tracts (CTs), all of which are middle-income. There are no low- or moderate-income CTs in the AAs.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF BAYLOR AND MOTLEY COUNTIES		
	Baylor County	Motley County
Population		
Number of Families	1,177	423
Number of Households	1,789	593
Geographies		
Number of Block Numbering Areas (BNA's)	2	1
% Low-Income BNA's	0.00%	0.00%
% Moderate-Income BNA's	0.00%	0.00%
% Middle-Income BNA's	100.00%	100.00%
% Upper-Income BNA's	0.00%	0.00%
Median Family Income (MFI)		
2000 MFI for Baylor County	\$35,380	\$36,380
2010 HUD-Adjusted MFI	\$46,500	\$46,500
Economic Indicators		
Unemployment Rate	2.45%	1.23%
Weighted avg. Median Housing Value	\$38,517	\$31,700
% of Households Below Poverty Level	15.65%	18.38%

Source: 2000 Census data and HUD updated income data.

The primary credit needs of the counties stem from the agriculture industry (farming, ranching, etc.) with secondary needs for consumer needs (home purchase or improvement, automobile, and other consumer needs) and general business needs. The economy of the area is not well-diversified and is primarily dependent on the agriculture industry. This industry has been depressed for the past several years, and the area remains in one of the worst droughts on record. Unemployment levels are low. Major employers in the counties are hospitals, school districts, and city and county governments.

We considered information from a community leader whom we interviewed as part of this examination. According to this contact, all banks in Baylor County have a positive image, are involved in the community, and are supportive of local business initiatives.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our conclusions in this section are based on the lending activity since the previous CRA examination, dated August 14, 2006. We used loan information, borrower income, and AA data provided by the bank and tested it for accuracy. We selected samples from the general consumer loan and general agriculture loan portfolios to evaluate the bank's lending performance within the AA (refer to the **SCOPE OF EXAMINATION** section for details). For the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** we replaced loans originated outside of the AA with loans originated inside the AA.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance.

The LTD ratio measures the extent to which the subject bank has returned the deposits it has received to the community in the form of loans. We used average LTD ratios for each quarter-end since the 2006 CRA examination to determine performance in this area. The average LTD ratio for FNB since the last CRA examination was 21.4%. The AA and surrounding counties contain 13 other state and national institutions with which to compare FNB. The average LTD ratios, for the same period, of these institutions ranged from 50% to 93%. Average LTD information for one local branch of a state-chartered bank is not available on a "stand-alone" basis; however the entire institution currently reports a LTD ratio of 16%, lower than FNB's average. One should consider several mitigating factors when comparing FNB's LTD ratio with the ratios of other institutions. FNB's heavy volume of low dollar loans, conservative lending philosophy, and significant local competition contribute to the low LTD ratio. As reported earlier, FNB's niche is consumer lending, and the bank's average consumer loan is \$3,900.00. The bank's smallest loan is just \$160.00. These facts support the reasonableness of FNB's LTD ratio, and the bank's satisfactory efforts to meet the credit needs of the communities served.

Lending in Assessment Area

FNB's lending within the AA exceeds the standards for satisfactory performance.

This section quantifies what portion of the bank's lending activity was within its AA. An institution that exhausts its resources lending in other areas, to the exclusion and detriment of its own AA, would be considered less than satisfactory. A significant majority of FNB's lending efforts are concentrated within the Baylor AA.

To assess the FNB's performance, we used the samples described above. Based on our sample results, a significant majority of loans were originated within the Baylor AA. The following table reflects the results of our assessment of FNB's efforts to lend within its AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Agriculture Land	16	80%	\$1,040	86%	4	20%	\$177	14%
Consumer Auto	16	80%	\$84	68%	4	20%	\$39	32%
Total Reviewed	32	80%	\$1,124	84%	8	20%	\$216	16%

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

FNB’s loan distribution to the different household and family income levels as well as businesses of different sizes, meets the standards for satisfactory performance.

The bank obtains and analyzes applicant income information during the loan decision process; however this information is not used for CRA purposes. To assess FNB’s efforts, we used the samples described above. Also, FNB does not have a minimum loan amount in policy. We reviewed the loan trial and noted a number of loans for \$1,000 or less (the lowest was \$160.00), and noted an additional number of other credits between \$1,000 and \$1,500. Currently, 20.5% of the loan portfolio is represented by loans with originating balances of \$1,500.00 or less. These combined facts indicate FNB is meeting the credit needs of the community.

Borrower Distribution of General Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	32%	30%	18%	25%	18%	25%	32%	15%

5% of the number and 0.7% of the dollar amount did not have income information in the loan file.

A majority of FNB’s commercial loans are to businesses with gross annual revenues of less than \$1 million. The following table illustrates the lending distribution to businesses located within the bank’s AA.

Borrower Distribution of General Agriculture Loans				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	100%	0%	0%	100%
% of Bank Loans in AA by #	80%	5%	15%	100%
% of Bank Loans in AA by \$	69%	13%	18%	100%

Geographic Distribution of Loans

This test is not meaningful as there are no low- or moderate-income tracts in the assessment area.

Responses to Complaints

The bank has not received any CRA-related complaints since the 2006 CRA examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs. .