



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 03, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Mertzton
Charter Number 9810**

**106 S. Broadway
Mertzton, TX 76941**

**Comptroller of the Currency
San Antonio North Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, TX 78216**

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 Mertzon's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The distribution of loans reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area (AA).
- A majority of loans and other lending-related activities are in the bank's AA.
- The loan-to-deposit ratio is less than reasonable given the bank's size, financial condition, and AA credit needs.

DESCRIPTION OF INSTITUTION

The First National Bank of Mertzon (FNB) is a \$115 million financial institution. The bank currently has its main office in Mertzon and two branches in San Angelo. It opened one of the branches since the previous CRA examination. FNB is a locally owned community bank and not part of a holding company. The bank owns three automatic teller machines with one located at each location. It is a full service bank whose main focus is providing small business and consumer loans. At the prior CRA examination dated February 11, 1997, a Satisfactory rating was assigned. There are no legal or financial factors impeding the bank's ability to help meet the credit needs of its AA.

As of December 31, 2001, net loans represent 26% of the bank's total assets. The bank focuses on small business and agricultural lending, which make up 70% of the bank's loan portfolio. A summary of the loan portfolio is shown below:

Loan Category	\$ (000)	%
Commercial Real Estate Loans	7,913	26%
Commercial Loans	7,646	25%
Agricultural Loans	5,766	19%
Consumer Loans	4,695	16%
Residential Real Estate Loans	4,169	14%
Total	30,189	100%

DESCRIPTION OF ASSESSMENT AREA (AA)

FNB's AA consists of Irion and Tom Green Counties. Irion County includes the city of Mertzon and is not included in a metropolitan statistical area (MSA). Tom Green County contains the city of San Angelo. The San Angelo MSA is all of Tom Green County. The 2001 median family income for the AA is \$43,083.

Tom Green County has a population of approximately 100,000. San Angelo is the headquarters for two commercial banks, but is also served by branches of other banks, as well as numerous credit unions. The principal industries are oil and gas production and agriculture. Tom Green County is composed of 23 census tracts. Two are designated as low-income, five are moderate-income, eleven are middle-income, and five are upper-income.

Irion County consists of one middle-income block numbering area (BNA) and is located approximately 30 miles southwest of San Angelo. There are no low- or moderate-income BNA's in the county. Irion County has a population of approximately 1,600.

Of all the families living in the AA, 20% are designated as low-income, 19% are moderate-income, 22% are middle-income, and 39% are upper-income. The AA meets the requirements of the regulation. Examiners discussed the local economy and community credit needs with leaders from Mertzon and San Angelo. These community contacts identified no unmet credit needs.

The following table provides demographic information for the entire AA.

<i>Population</i>	
Number of Families	26,142
Number of Households	36,239
<i>Geographies</i>	
Number of Census Tracts/BNA	24
% Low-Income Census Tracts/BNA	8%
% Moderate-Income Census Tracts/BNA	21%
% Middle-Income Census Tracts/BNA	50%
% Upper-Income Census Tracts/BNA	21%
<i>Median Family Income (MFI)</i>	
1990 Census MFI	25,116
2001 HUD-Adjusted MFI	43,083
2000 HUD-Adjusted MFI	41,025
1999 HUD-Adjusted MFI	40,225
1998 HUD-Adjusted MFI	38,712
1997 HUD-Adjusted MFI	37,790
<i>Economic Indicators</i>	
Unemployment Rate	3.63%
2001 Median Housing Value	51,906
% of Households Below Poverty Level	16.62%

SAMPLING INFORMATION

Our review focused on the bank's main product line, commercial/small business/agricultural loans, because this sector represents 70% of the bank's loan portfolio. We also reviewed the bank's record of making consumer loans and residential real estate loans. We sampled loans for the commercial and consumer loans. For residential real estate loans, we reviewed loans from the bank's Home Mortgage Disclosure Act Loan Application Register (HMDA LAR). All loans in our sample were originated since the last CRA examination. We reviewed loans made by both number of loans and dollar volume of loans made. We placed an emphasis on the number of loans because it is more reflective of the bank's efforts to lend.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management had demonstrated satisfactory performance in meeting the credit needs of the AA.

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

The distribution of loans reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

The bank's record of lending to small businesses and farms is reasonable. Of the 32 commercial loans sampled, the bank made all but three to businesses or farms with annual gross revenues of less than \$1,000,000, including 34% of the number of loans to businesses with gross annual revenues of less than \$100,000. The bank made a lower percentage of its loans to small businesses based on dollar volume. This number is skewed by a few large loans to businesses with revenues over \$1,000,000. This is reasonable as small businesses tend to have smaller borrowing needs in terms of dollars than do larger companies.

BORROWER DISTRIBUTION OF LOANS TO SMALL BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	89	11
% of Bank Loans in AA #	91	9
% of Bank Loans in AA \$	66	34

The bank's record of making consumer loans to low- and moderate-income borrowers is strong. The bank made 54% of the number of consumer loans sampled to low- and moderate-income borrowers compared to 40% of the households in the AA being designated either low- or moderate income. The level of lending is lower when reviewing dollar volume. This is reasonable since upper-income borrowers generally borrow larger amounts than low- and moderate-income borrowers. For example, lower- and moderate-income borrowers generally purchase used cars, while upper-income borrowers purchase new cars, which cost more. The following table illustrates the bank's record of consumer lending.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	24		16		18		42	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	33	14	21	16	16	21	30	49

The following table shows the number of residential real estate loans the bank made during the evaluation period follows the demographic composition of the community. The bank's record of making residential real estate loans to low- and moderate-income borrowers is comparable to the percentage of low- and moderate-income families in the AA when considering the number of loans. The bank made a lower-percentage of loans to low- and moderate-income borrowers based on dollar volume. Lower-income individuals are generally less likely to purchase homes than upper-income borrowers. Lower-income borrowers also usually purchase less expensive and often older homes. They tend to borrow smaller amounts and less often.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	20		19		22		39	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2001	16	8	13	4	29	7	42	81
2000	15	3	20	4	12	12	53	81
1999	22	4	16	8	17	16	45	72
1998	24	8	20	3	16	5	40	84
1997	26	5	18	14	22	23	34	58
Total	21	6	18	6	19	12	42	76

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. Since Irion County has no low- or moderate-income census tracts, a geographic analysis of that part of the AA would not be meaningful. We reviewed only loans made by the San Angelo branches.

The bank's lending to businesses in moderate-income areas is strong with 23% of small business/farm loans being made in moderate-income tracts, versus only 8% of AA businesses in those areas. The bank's level of lending to businesses in low-income areas is below the percentage of businesses in those areas based on number of loans, but is comparable based on dollar volume of loans. These numbers are reasonable since neither of the bank's branches is located near the low-income census tracts.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	57		8		9		25	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Commercial	35	65	23	18	23	9	19	10

The bank's level of lending in the low- and moderate-income neighborhoods is comparable to, but slightly lower than, the percentage of owner-occupied properties in those areas. Neither of the bank's branches is located in low- or moderate-income census tracts. Other financial institutions have branches in the low- and moderate-income areas that service those areas.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	3		19		52		26	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2001	4	1	16	2	32	48	48	49
2000	0	0	14	13	46	54	40	33
1999	0	0	14	10	36	26	50	64
1998	0	0	18	2	76	97	6	1
1997	0	0	16	6	39	36	45	58
Totals	1	1	15	6	42	48	42	45

The bank has a strong record of making consumer loans in low-income neighborhoods. The bank's level of lending to moderate-income households is low when compared to the area demographics. Again, neither of the bank's branches is located in the low- or moderate-income areas.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	3		19		56		26	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	10	11	5	1	55	65	30	23

Lending in Assessment Area

A majority of loans and other lending-related activities are in the bank's AA. The bank made 80% of its loans during the evaluation period inside its AA. The following table shows the bank's level of lending in its AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	32	80	2,046	44	8	20	2,595	56
Residential RE	262	78	8,431	74	72	22	2,898	26
Consumer	43	90	296	84	5	10	57	16
Total Reviewed	337	80	10,773	66	85	20	5,550	34

Loan-to-Deposit Ratio

The loan-to-deposit ratio is less than reasonable given the bank's size, financial condition, and AA credit needs. The average loan-to-deposit ratio for the last 17 quarters is 29%. The ratio has been fairly stable over that time period. FNB's ratio ranks last out of three banks headquartered in the AA. The other banks have average loan-to-deposit ratios of 47% and 48%. Two other banks in surrounding counties with total assets of more than \$100 million have average loan-to-deposit ratios of 76% and 47%.

Responses to Complaints

FNB has not received any complaints or public comments regarding its CRA performance during this evaluation period.

Fair Lending Review

An analysis of 1997 through 2001 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its 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 2000.