



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

July 23, 2007

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Trinity  
Charter Number: 13706

105 South Robb  
Trinity, Texas 75862

Office of the Comptroller of the Currency

Houston Field Office  
1301 McKinney Street, Suite 1410  
Houston, Texas 77010-3031

**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 Outstanding.**

The First National Bank of Trinity (TFNB) has an outstanding record of meeting credit needs within the community. The following supports this rating:

- The borrower distribution of consumer loans to low- and moderate-income borrowers reflects excellent penetration.
- The borrower distribution of residential real estate loans to moderate-income borrowers reflects excellent penetration.
- The borrower distribution by number of loans to small businesses is excellent.
- A substantial majority of loans have been originated in the assessment area (AA).

## **SCOPE OF EXAMINATION**

We completed a full-scope review of TFNB's CRA activities. Our review focused on loan originations in 2005, 2006, and year-to-date 2007. We reviewed the three major loan product originations during this period of residential real estate, commercial, and consumer. During this period, officers originated 48 real estate loans totaling \$1.3 million and 226 commercial loans totaling \$7.2 million. By number, the largest product was consumer loans. Officers originated 1,521 consumer loans totaling \$7.1 million during this period. We chose a statistically valid sample of 20 loans in the AA for each of the three products to evaluate TFNB's performance. The bank received a satisfactory rating at the previous CRA examination dated June 24, 2002.

## **DESCRIPTION OF INSTITUTION**

TFNB is an independently owned institution located in the town of Trinity in Trinity County, Texas. The bank was chartered June 17, 1933. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. The bank is not owned by a holding company. As of March 31, 2007, the bank had \$43 million in assets and a Tier One Leverage Capital ratio of 8.76 percent. The loan portfolio represents 34 percent of total assets. The primary business focus is consumer, real estate, and small business lending. TFNB recently received approval for its first branch office in Riverside, Texas in Walker County, which is less than five miles from the Trinity location.

*Please refer to TFNB's CRA Public File for more information about this institution.*

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The AA includes six contiguous census tracts (CTs) in the four counties of Trinity, Walker, Houston, and San Jacinto. Three CTs are in Trinity County and are designated as middle-income according to the 2000 U.S. Census; these are CTs 9503.00, 9504.00, and 9505.00. Walker County has CT 7901.00, and it is designated as upper-income. Houston County has CT 9507.00, and it is designated as middle-income although it is considered distressed or underserved according to the latest information published by the Federal Financial Institutions Examination Council. The only moderate-income CT in the AA is 2003.00 in San Jacinto County.

According to the 2000 U.S. Census, the total AA has a population of 32 thousand with 14 percent having incomes below the poverty level. Approximately one-third of the population receives social security benefits. The weighted average of median housing is \$54.8 thousand although new homes are not available in this price range. Of the 13.5 thousand housing units in the AA, about 8 thousand are owner-occupied. The updated median family income is \$41,800 for 2007, and the weighted average median household income according to the 2000 U.S. Census has been \$34,312 for the evaluation period. Considering all four AA counties, the Texas Department of Criminal Justice (TDCJ) is the largest employer. In addition, all towns in the AA are within a reasonable driving distance of the major metropolitan area of Houston, Texas. Banking competition in the AA is moderate. There are nine community banks in the AA with only two banks exceeding \$100 million in total assets.

In Trinity County, the largest town is Trinity with an estimated population of 2.7 thousand. Trinity is approximately 20 miles from Huntsville, Texas in Walker County. Although not in the bank's AA, Huntsville is the largest town in the area with a population of 35 thousand. Huntsville has a significant influence on the AA. Many Trinity residents work in Huntsville, which is the state headquarters for the TDCJ and the home of Sam Houston State University. The TDCJ has more than 7 thousand employees throughout the AA, and the University employs approximately 3 thousand. Trinity is bordered on three sides by Lake Livingston providing ample recreational opportunities. In addition to Lake Livingston, the Trinity River is close and provides additional recreational opportunities. In addition to the TDCJ, major employers in Trinity include the school district with 220 employees and several other smaller businesses including: Trinity Steel Fabricators Inc., United Steel Fabricators, Inc., Holloman Distributing Company Inc., Stevenson Beer Distributing Company Inc., Atchley Lumber & Supply, Brookshire Brothers Grocery, and East Texas Medical Center. A community contact in Trinity stated that opportunities exist to finance local businesses and provide consumer loans to purchase vehicles. The bank offers both business and consumer loans, and officers have originated a significant number of used vehicle loans.

The bank's presence in Walker County is limited mostly to the community of Riverside. It is a crossroads community on the opposite side of the Trinity River from the town of Trinity. Businesses in Riverside include convenience stores, a grocery meat market, and a real estate office. It also has a small post office. Although businesses and

residences are limited, opportunities to provide banking services exist. Two TDCJ facilities are nearby, and the two major highways passing through Riverside have considerable traffic. Other than the TDCJ facilities, Riverside does not have any major employers. The bank recently received approval to open a branch in Riverside. Walker County has an estimated population of 62 thousand with most of the population residing in or around Huntsville, Texas that is not in the bank's AA.

In Houston and San Jacinto County, the bank's presence is limited to one CT in each county. Houston County is located in the heart of Davy Crockett National Forest. The county has an estimated population of 23 thousand. The county seat is Crockett, and it is the largest town with approximately 7 thousand residents. Major employers in the county include Vulcraft Corporation with 330 employees engaged in steel fabrication, Crockett Independent School District with 320 employees, and Crockett State School juvenile center with 305 employees. The town of Lovelady in Houston County is the largest in the one CT of the bank's AA with a population of 608 persons. Lovelady employment is dependent upon the TDCJ's Eastham Unit with a staff of 636 employees. San Jacinto County is close to the Sam Houston National Forest and Lake Livingston and has a population of 25 thousand. The county seat is Coldspring with a population of 763 persons according to the latest estimates. The TDCJ is the major employer.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is reasonable. Since the prior examination, TFNB's quarterly LTD ratio average is 51.37 percent. The most recent ratio at March 31, 2007 is 37.31 percent. This is below the bank's normal ratio because of a large \$5.7 million temporary local municipal entity deposit not available for lending. This deposit lowered the ratio for the recent quarter and the quarter ended December 31, 2006. The ratio since the prior examination is similar to a peer group ratio of 57.45 percent for nine banks in the four counties of the AA during the evaluation period.

### Lending in Assessment Area

Lending in the AA reflects a substantial majority inside the AA as shown in the following table. The dollar amount of loans is less than the number because of one out-of-area loan participation, but the percentage in the AA is still more than reasonable.

Table 1 – Lending in TFNB Trinity AA										
Loan Type	Number of Loans					Dollars of Loans (In Thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	20	100.00	0	0.00	20	603	100.00	0	0	603
Commercial	20	86.96	3	13.04	23	493	60.00	329	40.00	822
Consumer	20	90.91	2	9.09	22	77	86.17	12	13.83	90
Totals	60	92.31	5	7.69	65	1,173	77.47	341	22.53	1,514

Source: Loan Sample.

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

Overall, lending to borrowers of different incomes and to businesses of different sizes reflects excellent penetration. For consumer lending, the bank's level of performance significantly exceeds the characteristics of the AA.

The borrower distribution of residential real estate loans is excellent for lending to moderate-income borrowers. We compared the bank's loan originations to the 2000 U.S. Census characteristics of the AA. Lending to low-income borrowers is less than the AA characteristics. However, the availability of affordable housing for low-income borrowers in the AA is limited, and this limits opportunities for lending. In addition, the AA has a 14 percent poverty level further limiting the ability to make home loans. The excellent level of lending to moderate-income borrowers is shown below:

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in TFNB Trinity AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	18.71	5.00	18.82	40.00	23.10	20.00	39.37	35.00

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

The distribution of loans to businesses is excellent. The percentage of sampled loan originations was compared to Dunn and Bradstreet data for businesses in the AA reporting business revenues. By number, the bank's loan originations significantly exceed the characteristics of the AA. By dollar, the percentage is below, but the lower percentage is related to the size of the loan. Most business customers are very small businesses with revenues significantly below \$1 million. As a result, the loan amounts are small. In our sample of loans originated in the AA, only one loan was in excess of \$100 thousand. The larger dollar amount loans were originated to businesses with more than \$1 million in revenues significantly affecting the dollar percentage. TFNB's performance is shown in the following table:

<b>Table 2A - Borrower Distribution of Loans to Businesses in TFNB Trinity AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	52.31	2.45	45.24	100%
% of Bank Loans in AA by #	80.00	20.00	0.00	100%
% of Bank Loans in AA by \$	42.44	57.56	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

The borrower distribution of consumer loans compared to the 2000 U. S. Census characteristics of the AA is excellent, exceeding the characteristics of the AA. In addition, the bank's minimum loan amount is \$500, and officers will originate loans for the purchase of older automobiles thereby encouraging applications from low- and moderate-income borrowers. The bank's performance is shown in the following table:

<b>Table 2B - Borrower Distribution of Consumer Loans in TFNB Trinity AA</b>								
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	20.39	25.00	14.76	35.00	19.35	10.00	45.50	30.00

Source: loan sample; U.S. Census data.

### Geographic Distribution of Loans

Considering the AA characteristics and lending opportunities, the geographic distribution of loans is reasonable. We concluded the geographic distribution of loans did not have as much weight as lending to borrowers of different incomes and businesses of different sizes in assigning a final CRA rating. The bank is located in a rural area, and low- and moderate-income borrowers are not concentrated to any extent in any particular CTs.

The AA does not have any low-income CTs, and it only has one moderate-income CT in San Jacinto County. This CT has about 4.2 thousand households and approximately 56 percent of the 1.6 thousand housing units in the CT are owner-occupied. Therefore, opportunities are very limited for originating residential real estate loans. Officers did not originate any residential real estate loans in the one CT in our sample of loans. However, TFNB did originate one loan in a Houston County middle-income CT designated as underserved that is not shown in the table below.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	0.00	0.00	20.50	0.00	41.45	90.00	38.05	10.00

Source: loan sample; U.S. Census data.

Considering the small number of businesses, 202, in the one moderate-income CT in San Jacinto County, the geographic distribution of loans to businesses is reasonable. Bank officers originated one business loan in the moderate-income CT identified in our sample. The bank's performance is compared to Dunn and Bradstreet information about the AA and is shown in the following table:

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	0.00	0.00	13.87	5.00	51.75	95.00	34.38	0.00

Source: loan sample; Dunn and Bradstreet data.

Because of the limited lending opportunities in the moderate-income CT, we did not identify any consumer loans originated in this CT in our sample. The excellent overall volume of consumer lending to low- and moderate-income borrowers throughout the AA compensates for the lack of lending in the one moderate-income CT. In the future, the Riverside branch will increase lending opportunities overall and the opportunities in the moderate-income CT based on its location at the crossroads of two major highways as residents drive to their homes. The bank's performance is shown in the following table:

<b>Table 3B - Geographic Distribution of Consumer Loans in TFNB Trinity AA</b>								
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	0.00	0.00	18.79	0.00	42.64	95.00	38.57	5.00

*Source: loan sample; U.S. Census data.*

### **Community Development Loans**

During the evaluation period, officers renewed one construction loan for \$20 thousand to a local charitable organization that meets the community development purpose test. The purpose of the organization is providing food to needy persons. Although officers have originated other community development loans that are still in the loan portfolio, they were not originated nor renewed during this evaluation period.

### **Qualified Investments and CD Services**

In lieu of originating loans to charitable organizations, TFNB donates to local charities. Most of these charities are involved in activities with a community development purpose. To date in 2007, TFNB has donated \$5.5 thousand. Total donations in 2006 were \$8.4 thousand, and donations in 2005 were \$5.7 thousand. In 2004 donations were \$10.4 thousand, and they were \$6.9 thousand in 2003.

Directors and officers are involved in community activities. For example, directors and officers provide support and services to the Boys and Girls Club that is focused on low- and moderate-income children. In addition, officers are involved with the local Lion's Club that provides support to low- and moderate-income persons as part of their community outreach.

### **Responses to Complaints**

The bank did not receive any CRA-related complaints during the CRA evaluation period.

### **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.