



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

October 25, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Livingston
Charter Number 6169**

**308 W. Church Street
Livingston, TX 77351**

**Comptroller of the Currency
Houston East
3838 North Causeway Boulevard Suite 2890
Metairie, LA 70002**

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 Livingston (FNB) meets the credit needs of its assessment area (AA). The following factors support this conclusion:

- The loan-to-deposit ratio is adequate.
- The borrower distribution of home purchase loans to individuals meets the standards for satisfactory performance.
- Lending to small businesses exceeds the standards for satisfactory performance.
- The bank has originated 40% of small-unsecured installment loans in 2004 to low-to-moderate income families.
- A majority of the bank's loans are made within its assessment area.
- The bank actively participates in Community Development Activities in the Assessment Area.

DESCRIPTION OF INSTITUTION

FNB is located in Livingston, Texas. FNB was chartered in 1902. The bank has \$207 million in assets and serves its community with one main branch and two additional branches. The main branch is located in downtown Livingston, and the two branches are located in West Livingston and Onalaska, Texas. The branch in West Livingston opened on September 11, 1998. This branch was acquired through a merger with The Bank of Livingston. FNB maintains the second largest deposit market share in its assessment area, totaling 25%. The bank offers a full range of credit products within its assessment area including residential real estate, consumer loans, and small business lending products. Residential real estate lending represents the majority of lending activity at 64% of the total lending portfolio. Loans to individuals represent 19%, and commercial loans represent 17% of the lending portfolio. FNB's last Community Reinvestment Act (CRA) examination was June 30, 1998.

Please refer to FNB's CRA public file for more information about the institution.

DESCRIPTION OF ASSESSMENT AREA (Livingston)

The bank's Assessment Area (AA) consists of Polk County, San Jacinto County, and Tract 9502.00 in Trinity County. This area consists of eleven middle-income tracts and one moderate-income tract. The moderate-income tract is located in Trinity County.

The population of the assessment area is 66,871, per the 2000 U.S. Census. Retired persons make up a significant portion of the area's population. 38% of the population is living on social security, and 21% of the population is living on retirement income. The ten top employers in Livingston are: 1) Livingston Independent School District (ISD) – Education; 2) Wal-Mart; 3) County of Polk; 4) Memorial Medical Center; 5) Pine Ridge Nursing Center; 6) Sam Houston Electric Cooperative, Inc.; 7) Lowe's Home Improvement Center; 8) Brookshire Bros. Grocery Store; 9) Area Banks; and 10) Food Industry. Employers in outlying areas include: International Paper; Texas Department of Corrections; Corrigan-Camden ISD; Alabama-Coushatta Indian Reservation; Escapees – National Recreation Vehicle Club; Onalaska ISD, and American Railroad. Lumbering, ranching and the production of gas and oil continue to be economically important to the City.

Lake Livingston, a 93 thousand acre man-made lake is located 15 miles west of Livingston. This is an important tourist attraction to the area. It is anticipated that future growth for the region will focus on the health-care industry as well as retiree and senior-care related industry and small businesses. The City of Livingston anticipates a \$25 million expansion project to the current hospital in the area. In addition to this, numerous new medical office buildings, nursing homes, assisted living and independent living retirement facilities, and "Adult over 55 residential subdivisions" are developing in the area. These factors will contribute to Livingston experiencing a growing elderly population.

Housing units in the AA are mostly owner-occupied units, with this representing 60% of the housing units as reported by the 2000 U.S. Census. The weighted average of median housing is \$52,219. The Median Family Income for the area is \$36,669.

Please refer to FNB's CRA public file for more information about the AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our review focused on residential real estate loans, individual loans, and small business/commercial loans. Residential real estate loans represented 64% of the total loan portfolio of \$55 million. Individual loans were 19%, and commercial loans were 17% of the loan portfolio. For residential real estate, we compared the information to the 2000 U. S. Census information. Commercial lending was compared to Dunn and Bradstreet data for 2003.

Loan-to-Deposit Ratio

Performance for the loan-to-deposit ratio is adequate. The ratio averaged 29.73 percent for the 20 quarters available since the last CRA evaluation and has experienced an increasing trend throughout the review period. As of September 1999, the ratio was 25.75 percent and it has increased to 32.05 percent as of June 30, 2004. First National Bank of Livingston offers an adjustable rate residential mortgage loan product. For those borrowers seeking a 15 to 30 year fixed rate residential real estate loan, the bank provides a referral to Commercial Bank, a permanent lender. Since 2001 to date, First National Bank of Livingston has referred 40 home loan borrowers totaling almost \$4.9 million in fixed rate residential real estate loan dollars to a permanent lender.

As depicted in the table below, the loan-to-deposit ratio indicates that First National Bank of

Livingston extends a reasonable amount of credit given its size, capacity, credit needs, and is representative of demographics of its assessment area which suggests a stable, mature population comprised mainly of “empty-nesters”, retirees, and the aged. There are 20.31 percent individuals 65 years and older living in the assessment area and this average exceeds the state average of 10.06 percent.

First National Bank of Livingston deposits largely consist of an average of \$5.3 million in public funds and approximately 50 percent of total deposits averaging \$34.4 million are owned by long time depositors 65 years of age and older.

First National Bank of Livingston is subject to strong competition from other national and state banks and non-bank financial entities especially in the nearby Houston Metropolitan Statistical Area.

Institution	Assets June 30, 2004 (000's)	Average Loan-to-Deposit Ratio
First State Bank	\$210,766	58.94
First National Bank of Jasper	\$190,903	29.05
<i>First National Bank of Livingston</i>	<i>\$207,359</i>	<i>29.73</i>

Lending in Assessment Area

The bank satisfactorily originates a majority of its loans in its assessment area. The analysis included 88 total loans including residential real estate and small business/commercial. 100% of the reviewed real estate loans and 90% of the sampled small business loans were made in the bank’s assessment area. 98% overall of the loans were made in the assessment area.

Performance in each loan category is shown in the following table:

Lending in Livingston Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
Residential Real Estate	67	100	0	0	67	\$3,754,943	100	0	0	\$3,754,943
Commercial/ Small Business	19	90	2	10	21	\$1,892,145	95	91,520	5	\$1,983,665
Totals	86	98	2	2	88	\$5,647,088	98	91,520	2	\$5,738,608

Source: Loan sample and bank provided download with verification performed (RE loans).

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

Overall, the bank's level of lending to borrowers of different incomes and to businesses of different sizes meets the standards for satisfactory performance.

Residential Real Estate lending and Individual loans:

The bank's main lending product is real estate loans. The bank's performance in this category is reasonable considering the demographics, bank's products, and limited lending opportunities in the area. The bank only offers a variable rate real estate product. The demand in the area is for fixed rate mortgages with longer terms. The bank refers these types of requests to Commercial Bank. The community contact made during this examination indicated that FNB has the only avenue in the area to acquire permanent financing over 15 years.

Individual loans are the bank's second leading lending product. The bank exceeds the standards for satisfactory performance for individual loans to moderate-income families and is reasonable to low-income families in the area. FNB made 145 loans (18%) to low-income families and 177 loans (22%) to moderate-income families of the 800 reviewed individual loans made in 2004.

The following table displays the bank's lending to borrowers of different incomes for owner-occupied real estate and individual loans:

Borrower Distribution of Residential Real Estate Loans in Livingston Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Owner Occupied Residential R/E	21	5	18	12	22	13	39	70
Individual unsecured loans	21	18	18	22	22	22	39	38

Source: Loan information provided by bank mainframe downloads consisting of 86 real estate loans and 800 unsecured individual loans; verification consisted of 24 of the 86 real estate loans (30%) and 155 of the 800 consumer loans (19%); 2000 U.S. Census data

The above analysis is based on downloaded information from the bank's mainframe. The bank collects and records income information. Verification of the data was performed.

Small Business lending:

The number of loans by FNB to small-businesses totals 95%. Small businesses are defined as businesses with gross annual revenues of \$1 million or less. This exceeds the standards for satisfactory performance, as compared to Dunn and Bradstreet data. This data reflects 66% of reporting businesses, which had gross annual revenues of \$1 million or less. A high level of businesses did not report gross annual revenues in 2003 according to Dunn and Bradstreet data.

The following table displays FNB’s lending to businesses of different sizes based on a sample of 2001-2004 loan originations for commercial loans:

Borrower Distribution of 2001-2004 Loans to Businesses in Livingston Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66	3	31	100%
% of Bank Loans in AA by #	95	5	0	100%
% of Bank Loans in AA by \$	88	12	0	100%

Source: loan sample; Dunn and Bradstreet data for 2003.

Geographic Distribution of Loans

FNB assessment area does not contain any low-income tracts and has only one moderate-income tract located in Trinity County. An evaluation of this tract would not be meaningful. This tract contains only 8% of the population and 6% of the total number of families in the assessment area. The owner-occupied housing for this area represents only 6% of the total owner-occupied housing in the assessment area. The distribution of small businesses in this tract represents 2% of the small businesses with revenues less than \$1 million in the assessment area.

Community Development

FNB has a satisfactory record of meeting the needs of the community through community development activities. The following is a listing of the bank’s more notable community development activities since the last performance evaluation:

- Annual monetary donations and annual volunteer assistance to *Cornerstone ECI Program*. This program serves children birth to three years old who are developmentally delayed, or at a risk of delay due to a medical diagnosis. This organization serves thirteen counties including Polk and San Jacinto Counties, with an average enrollment of 250 children. Services include: Developmental Services, Physical Therapy, Speech Therapy, Occupational Therapy, Service Coordination, and linkage to other services as needed by the family. As of September 30, 2004, thirty children from Polk and San Jacinto counties were enrolled in the program. Of the children in these counties, 77% were Medicaid eligible.
- FNB’s President is the acting Vice President of the local chapter of *Habitat for Humanity*. In addition to this, the bank has donated money to the organization, as well as providing free banking services.
- FNB financed the construction of a new building, which serves as an office/warehouse for the *Mannafest*. The Mannafest is a non-profit corporation, which serves as the local food bank for the Polk County area. The \$45,000 loan was a low interest rate loan, and was paid off in September 2004 from a grant. Most of the support for this organization is from the local churches, grants, and fundraisers. The organization provides food and hygiene items to low-income individuals. FNB also provides a no service charge checking account to the organization.
- FNB has donated money to the local chapter of the *Boys and Girls Club*.

Responses to Complaints

FNB did not receive any consumer complaints regarding its CRA performance during the assessment period.

Fair Lending or Other Illegal Credit Practices Review

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