



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**August 18, 2008**

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

First Security Bank, National Association  
Charter Number 24159

1801 Cross Timbers  
Flower Mound, TX 75028-0000

Office of the Comptroller of the Currency

FORT WORTH  
9003 Airport Freeway Suite 275  
North Richland Hills, TX 75201-3342

**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 lending performance of First Security Bank, Flower Mound, Texas, (FSB) reflects satisfactory responsiveness to its community's credit needs. This assessment is based on the following conclusions:

- The bank's average loan-to-deposit ratio of 88.2% since the previous CRA examination exceeds the standards for satisfactory performance given the bank's size, financial condition, local competition, and assessment area credit needs.
- A majority of the bank's lending activities is within the assessment area. Based on the loans reviewed in our samples, 65.4% of the number originated within the assessment area.
- The distribution of loans among individuals of different income levels and businesses of different sizes meets the standards. A reasonable portion of our 1-4 family and consumer auto samples was to low and moderate income families and households. A majority of the commercial loans was to small businesses.

## **SCOPE OF EXAMINATION**

The evaluation period for our assessment of FSB's CRA efforts, was January 1, 2008 to June 30, 2008 with the exception of 1-4 family home purchase loans. Loan products evaluated include 1-4 family home purchase loans, consumer auto loans and general commercial loans. Our sample sizes include all 1-4 family home purchase loans made since January 1, 2004, 20 consumer auto loans and 20 general commercial loans. We performed a full-scope review of FSB's assessment area – 22 whole and contiguous census tracts in Denton County, Texas, which was the basis of our overall rating of FSB's CRA efforts.

## DESCRIPTION OF INSTITUTION

FSB is a community bank located in Flower Mound, Texas, which is located approximately 25 miles north of downtown Dallas, Texas. The bank currently operates from three locations. The main bank is located in Flower Mound at 1801 Cross Timbers. A branch is located at 3970 FM 2181, Suite 100 in Hickory Creek, Texas, which is approximately 5 miles north of the main bank. Another branch is located at 940 Highway 377 South in Aubrey, Texas, which is approximately 20 miles northeast of the main bank. Each facility operates with onsite ATMs and drive-thru lanes.

FSB is a full-service community bank offering a wide variety of loan and deposit products. The bank offers transactional Internet banking through [www.fsbflowermound.com](http://www.fsbflowermound.com). As of June 30, 2008, FSB had total assets of \$146.1 million, total loans of \$124.5 million, and total deposits of \$125.3 million. The following tables present the bank's loan information at June 30, 2008.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate Loans	79,420	63.8%
Commercial Loans	23,380	18.8%
1-4 Family Loans	11,513	9.3%
Consumer Loans	9,827	7.9%
Other	345	0.2%
<b>Total</b>	<b>124,485</b>	<b>100.0%</b>
Percentage of Loans to Total Assets	85.2%	

FSB is 100% owned by First Graham Delaware Corporation, a two-bank holding company, which is 100% owned by First Graham Bancshares, Inc. The other bank in the holding company, affiliated through common ownership, is First National Bank of Graham (FNB) located in Graham, Texas. FNB is the lead bank in the holding company and received a Satisfactory CRA rating at its most recent CRA examination, dated February 25, 2008.

The corporate structure of FSB or the holding company has not changed since the prior CRA examination and no changes are currently planned. FSB was purchased by First Graham Bancshares and incorporated into the current holding company in August 2000. Significant market competition for FSB comes from numerous other local financial institutions, as well as branches of regional and multi-national banks located throughout the Dallas/Fort Worth Metroplex.

The most recent CRA examination of FSB was performed by the Comptroller of the Currency on March 8, 2004. 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 assessment area.

## DESCRIPTION OF ASSESSMENT AREA

FSB has defined its assessment area as 22 whole and contiguous census tracts that are part of the Dallas Metropolitan Statistical Area (MSA). Based on 2000 Census Data, there are no low- or moderate-income census tracts in the assessment area. The assessment area is legal and meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income census tracts. The table below presents selected demographic and economic characteristics of the assessment area.

<b>Assessment Area</b>	
<i>Population</i>	
Number of Families	60,305
Number of Households	78,790
<i>Geographies</i>	
Number of Census Tracts	22
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	45%
% Upper-Income Census Tracts	55%
<i>Median Family Income (MFI)</i>	
2000 MFI for assessment area	\$56,313
2008 HUD-Adjusted MFI	\$65,000
<i>Economic Indicators</i>	
Unemployment Rate	1.72%
2008 Median Housing Value	\$139,531
% of Households Below Poverty Level	4.56%

Source: 2000 Census Information updated through 2008 provided by PCI Services, Inc. CRA Wiz

The assessment area population is approximately 221 thousand. Flower Mound is more accurately described as a bedroom community whose residents work in the greater Dallas/Fort Worth metroplex area.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our conclusions in this section are based on the lending activity since the last CRA examination dated March 8, 2004. We used loan, borrower income, and assessment area data provided by the bank and tested it for accuracy. We selected samples from the 1-4 family purchase, commercial and consumer auto portfolios in order to evaluate the bank's lending performance within the assessment area (refer to **SCOPE OF THE EXAMINATION** for details). For the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** we replaced loans originated outside of the assessment area with loans originated inside the assessment area.

### Loan-to-Deposit Ratio

FSB's loan-to-deposit (LTD) ratio exceeds 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. The average of such ratios for each quarter-end since the last CRA examination is used to determine performance in this area. The average LTD ratio for FSB since the last CRA examination is 88.2%. The assessment area has a large number of banks to compare FSB with; however, management has indicated that there are three primary competitors. This list does not include branches of financial institutions chartered outside the assessment area, credit unions, co-ops, etc. The range of average LTD ratios for these banks was 70.0% to 93.1%. While FSB's LTD ratio is within the range, the significant level indicates it is exceeding the standards and is reasonably meeting the credit needs of the community served.

### Lending in Assessment Area

FSB's lending within the assessment areas meets the standards for satisfactory performance.

This section quantifies what proportion of the bank's lending activity is within its assessment area. An institution that exhausts its resources lending in other areas, to the exclusion and detriment of its own assessment area, would be considered less than satisfactory. However, FSB's lending efforts are concentrated within the assessment area.

To assess the bank's performance in this area we used the samples noted above. Based on our sample results, a significant majority of loans are within the bank's assessment area. The following tables reflect the results of our assessment of the bank's efforts to lend in its assessment area.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
1-4 Family Purchase Loans	53	58.9%	\$6,744	47.4%	37	41.1%	\$7,474	52.6%
Consumer Auto Loans	15	75.0%	\$174	71.2%	5	25%	\$70	28.8%
Commercial Loans	17	85.0%	\$872	27.6%	3	15.0%	\$2,290	72.4%
<b>Total Reviewed</b>	<b>85</b>	<b>65.4%</b>	<b>\$7,790</b>	<b>44.2%</b>	<b>45</b>	<b>34.6%</b>	<b>\$9,834</b>	<b>55.8%</b>

The percent of the dollar of loans in the assessment area is skewed by a small number of large loans. This is not a concern as a majority of the number loans was extended with in the assessment area.

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

FSB’s loan distribution, to the different family and household 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 monitored or used to assess the efforts to meet the standards for CRA purposes. To assess FSB’s efforts, we used the samples noted above. Our analysis, detailed in the tables below, indicates that the bank is reasonably lending to borrowers of all income levels and businesses of different sizes. Additionally, the bank does not have a minimum loan amount in policy. We reviewed the loan trial and noted a number of loans for \$1 thousand or less, and noted an additional number of other credits for \$1.5 thousand or less. Also, at the time a checking account is opened, it is automatically assigned a \$300 overdraft protection privilege. These factors indicate the bank is meeting the smaller credit needs of the community. Overall, we concluded that the bank’s performance is generally proportionate to the income levels of families and households within the assessment area, and the credit needs of low- and moderate-income individuals are being met. Also, the bank meets the needs of the small businesses.

*1-4 Family Purchase Loans -*

Borrower Distribution of 1-4 Family Purchase Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of Assessment Area Families	% of Number of Loans	% of Assessment Area Families	% of Number of Loans	% of Assessment Area Families	% of Number of Loans	% of Assessment Area Families	% of Number of Loans
1-4 Family Purchase Loans	10.2%	7.5%	13.0%	7.5%	19.9%	13.3%	57.0%	71.7%

*Consumer Auto Loans -*

<b>Borrower Distribution of Consumer Auto Loans</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	<b>% of Assessment Area Households</b>	<b>% of Number of Loans</b>	<b>% of Assessment Area Households</b>	<b>% of Number of Loans</b>	<b>% of Assessment Area Households</b>	<b>% of Number of Loans</b>	<b>% of Assessment Area Households</b>	<b>% of Number of Loans</b>
<b>Consumer Auto Loans</b>	<b>11.6%</b>	<b>25%</b>	<b>17.4%</b>	<b>15%</b>	<b>13.0%</b>	<b>25%</b>	<b>57.9%</b>	<b>30%</b>

Note: 5% of the number and 1% of the dollar amount of loans sampled did not have income information.

*Commercial Loans -*

<b>Borrower Distribution of Loans to Businesses</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/Unknown</b>	<b>Total</b>
<b>% of Assessment Area Businesses</b>	<b>66.4%</b>	<b>3.4%</b>	<b>30.2%</b>	<b>100%</b>
<b>% of Bank Loans in Assessment Area by #</b>	<b>60.0%</b>	<b>20.0%</b>	<b>20.0%</b>	<b>100%</b>
<b>% of Bank Loans in Assessment Area by \$</b>	<b>39.8%</b>	<b>53.6%</b>	<b>6.6%</b>	<b>100%</b>

The percent of the dollar of loans in the assessment area is skewed by a small number of large loans. Generally, the larger the business, the greater the tendency is to borrower larger amounts. This is not a concern as a majority of the number loans was extended within the assessment area.

**Geographic Distribution of Loans**

Not applicable as FSB’s assessment area does not contain any low or moderate income CTs.

**Responses to Complaints**

FSB has not received any complaints pertaining to its CRA performance during this 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.