



SMALL BANK

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

PUBLIC DISCLOSURE

April 27, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Sterling City
Charter Number 9813**

**4th & Main
Sterling City, TX 76951**

**Comptroller of the Currency
Lubbock (west Texas)
5225 South Loop 289, Suite 108
Lubbock, TX 79424**

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.

First National Bank of Sterling City (FNB) has a satisfactory CRA performance. We based our conclusion on FNB's lending practices. We evaluated these practices through review of samples of the bank's primary loan products. The rating is based on the following findings:

- FNB's loan to deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The ratio has averaged 53.64 percent since the last CRA examination.
- A majority of the bank's loans, 78.6 percent by number and 71.1 percent by volume, are to customers who live or operate their business within the assessment area.
- FNB has an excellent penetration to borrowers of various income levels, and businesses and farms of different sizes.
- An analysis of the geographic distribution of loans was not performed because there are no low- or moderate-income census tracts in the bank's assessment area.
- There were no complaints about the bank's CRA performance.

DESCRIPTION OF INSTITUTION

FNB is a rural community bank in Sterling City, Texas, which is approximately 150 miles south of Lubbock. FNB is an intrastate bank with one main office with drive up facilities. It also has a branch in Garden City.

As of December 31, 2004 FNB had total assets of \$40.6 million, with 36 percent of total assets in the loan portfolio. The bank's primary loan products include agricultural loans (by volume of loans) and consumer loans (by number of loans). The following chart details a breakdown of FNB's loan portfolio as of December 31, 2004.

Loan Portfolio Composition as of December 31, 2004		
Loan Category	\$ (000)	%
Agricultural Real Estate	3,296	23.96
Consumer	3,173	23.06
Agricultural	2,870	20.86
Commercial & Industrial	1,709	12.42
Commercial Real Estate	1,453	10.56
Residential Estate	912	6.63
Other	345	2.51
Total	13,758	100.00

Source: December 31, 2004 Report of Condition

Bank lobby and drive-through services are provided Monday through Friday. Based on its financial condition, the local economy, product offerings, and competition, FNB has the ability to meet the various credit needs in its community. The bank was rated “Satisfactory” at the last CRA examination on June 19, 1999.

FNB’s business strategy is to provide outstanding banking services to customers in its assessment area while increasing the long-term value of the owners’ investment. No legal impediments or other factors hinder FNB’s ability to provide credit in its assessment area. FNB’s Tier 1 Capital level is \$6.5 million representing 15.92 percent of adjusted average assets as of December 31, 2004. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

DESCRIPTION OF STERLING AND GLASSCOCK COUNTIES

FNB has designated Sterling and Glasscock Counties as its assessment area. Sterling and Glasscock Counties are in west Texas approximately 50 miles north of San Angelo. Sterling City is the county seat of Sterling County and the largest city in the area. The only other city of any size in the assessment area is Garden City, which is the county seat of Glasscock County. Specific demographic data and economic data for this area are listed below.

Demographic and Economic Characteristics of Sterling/Glasscock County Assessment Area	
Population	
Number of Families	743
Number of Households	988
Geographies	
Number of Census Tracts	2
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	100.00
% Upper-Income Census Tracts	0
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	40,242
2002 HUD-Adjusted MFI	42,000
Economic Indicators	
Unemployment Rate	4.1
2002 Median Housing Value	58,244
% of Households Below Poverty Level	14.00

Source: 2000 Census data and HUD updated income data.

The bank’s assessment area is comprised of two contiguous census tracts. This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies.

Based on 2000 Census data, the assessment area has a total population of 2,799. There are 1,293 housing units in the assessment area, of which 55 percent are owner-occupied, 22 percent are renter-occupied and 23 percent are vacant. Approximately 15 percent of the families in the AA assessment area are considered low-income. Moderate-income families approximate 15 percent of the population, while middle- and upper-income families comprise the remaining 70 percent. The local economy is based on agricultural related activities and oil and gas activities. The oilfield is experiencing increased production demands due to the high price of crude oil. It has positively

impacted the economy of Glasscock and Sterling counties. The largest non-agricultural employers within the assessment area include Range Petroleum and the local school districts.

There are no other financial institutions in the assessment area. There are numerous financial institutions within a 100-mile radius in San Angelo and Big Spring.

One individual in the community was interviewed for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. The individual indicated that the local economy has stabilized. The individual also indicated that the local financial institutions are cooperative and diligent in trying to meet the community's credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation period for this CRA examination is January 1999 through December 2004. The loan-to-deposit ratio was calculated for the period March 1999 through December 2004. FNB'S performance is satisfactory and management has been successful in meeting the credit needs of the bank's assessment area, including lending to farms of different sizes and individuals of different income (including low-to-moderate-income) levels.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNB is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 53.64 percent since the prior CRA examination in January 1999. The average loan-to-deposit ratio of similarly situated banks within or contingent to the assessment area for the same period was 51 percent.

The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the assessment area is listed below. Please note that these banks are listed alphabetically by city and that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 12/31/04)	Average Loan-to-Deposit Ratio
First National Bank, Bronte	23,941	56.34%
City National Bank, Colorado City	59,956	40.72%
First National Bank, Colorado City	22,020	43.19%
Robert Lee State Bank, Robert Lee	37,732	62.97%
First National Bank, Sterling City	39,017	53.64%

Source: Institution Reports of Condition from March 1999 to December 2004

Lending in Assessment Area

A majority of the bank's loans were made within its assessment area. In order to assess performance for these criteria, we reviewed 30 commercial and 24 consumer loans originated in 2004 and through May 2005. Our analysis determined that 79 percent of the number of loans and 71 percent of the dollar amount of loans in the sample were extended within the bank's assessment area. The breakdown by loan category is illustrated in the following table.

Lending in the Assessment Areas								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	20	67.7	952	69.0%	10	33.3%	428	31.0%
Consumer	22	92.0%	239	81.0%	2	8.0%	56	19.0%
Total Reviewed	44	78.6%	1,191	71.1%	12	21.4%	484	28.9%

Source: Sample of loans used for CRA performance analysis.

Lending to Borrowers of Different Incomes and to Small Farms of Different Sizes

FNB's loan portfolio reflects a reasonable distribution among individuals and families of various income levels (including low- and moderate-income) and small farms of different sizes within the assessment area. To perform our analysis, we reviewed income information of 30 agricultural loans business and 22 consumer loans in the Sterling/Glasscock assessment area.

Agricultural Loans - Based on 2004 demographic data, there are 90 small farms with reported revenues located within the assessment area. Of this number, 94.4 percent of agricultural borrowers reported revenues less than or equal to \$1 million. Of the loans in the agricultural purpose sample, 100 percent were to farms reporting annual revenues equal to or less than \$1 million. This level is comparable to the assessment area information and reflects a satisfactory penetration of loans to small farms. The following chart reflects the results of our selected sample of agricultural loans originated in this assessment area.

Borrower Distribution of Loans to Small Farms in Sterling/Glasscock County Assessment Areas				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	94.4%	4.5%	1.1%	100%
% of Bank Loans in AA by #	100.0%	0.0%	0.0%	100%
% of Bank Loans in AA by \$	100.0%	0.0%	0.0%	100%

Source: Loan sample; Dunn and Bradstreet data

Consumer Loans - Our analysis reflects a reasonable penetration of consumer loans to low- and moderate-income households in the assessment area. Based on 2000 census information, 33.6 percent of households in the assessment area are low- and moderate income. Our review determined that 68.2 percent of consumer loans were made to low- and moderate-income households. The distribution of consumer loans is comparable to the income characteristics of the assessment area for low- and moderate-income households. The following chart reflects the results of our selected sample of consumer loans originated in the assessment area.

Borrower Distribution of Consumer Loans in the Assessment Area								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	18.52%		15.08%		18.52%		47.88%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	68.2%	74.9%	0.00%	0.00%	27.2%	23.5%	4.6%	1.6%

Source: Loan sample; 2000 U.S. Census data.

Geographic Distribution of Loans

We did not perform an analysis of the geographic distribution of FNB's loans. The bank's assessment area consists of two middle-income census tracts. There are no low-to moderate-income census tracts in the bank's assessment area; therefore, this type of analysis would not be meaningful.

Responses to Complaints

No complaints relating to CRA performance have been received by FNB.

Fair Lending or Other Illegal Credit Practices Review

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