



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**April 01, 2002**

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

**First National Bank of Bosque County  
Charter Number 13675**

**418 Avenue C  
Valley Mills, TX 76689**

**Comptroller of the Currency  
Southwestern District  
Austin Field Office  
8310 Capital of Texas Highway North, Suite 250  
Austin, TX 78731-1080**

**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 the 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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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of First National Bank (FNB) of Bosque County, Valley Mills, Texas as prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of April 1, 2002. The agency rates the performance of the institution's compliance with the CRA consistent with the provisions set forth in Appendix A of 12 CFR Part 25.

**INSTITUTION'S CRA RATING:** This institution is rated “*Outstanding.*”

- FNB's lending performance is very good. The bank's loan-to-deposit (LTD) ratio has averaged 64% during the evaluation period and exceeds the local peer bank average of 59%.
- A substantial majority of FNB's loans have been made within its assessment area. Information gathered during this review indicated that 80% of the bank's loans are within its assessment area (AA).
- FNB has demonstrated a good willingness to extend loans to individuals of varying incomes and businesses of different sizes. Lending to low- and moderate-income families exceeds current demographic characteristics.
- There have been no complaints with respect to FNB's CRA performance.

The following pages further describe FNB's CRA performance.

**DESCRIPTION OF INSTITUTION**

FNB is a \$74 million community bank headquartered in Valley Mills, Texas, which is approximately 25 miles west of Waco, Texas. Additionally, FNB has two branch offices located within 10 miles of the main office. One branch is located in Clifton, Texas, just north of Valley Mills in Bosque County. This office was established in June 1990, when FNB acquired the failed Clifton National Bank. The other branch, “The Ranch House,” is located in McLennan County, between Valley Mills and Waco, Texas. The Ranch House branch opened in June 1995. FNB has two automated teller machines (ATMs), one located in a convenience store across the highway from the Ranch House branch and the other in the drive-through of the Clifton branch.

FNB is 100% owned by a one-bank, locally owned holding company, Valley Mills Financial Corporation.

Approximately 61% of the bank’s total assets are centered in the loan portfolio. The bank’s primary lending products include residential real estate, consumer, and commercial loans. The following chart details the breakdown of FNB’s loan portfolio as of December 31, 2001.

<b>Loan Type</b>	<b>Dollar Amount (000's)</b>	<b>% of Total Loans</b>
Real Estate (RE) Construction	2,131	4.72
RE Farmland	825	1.83
RE Residential (1-4)	17,561	38.86
RE Nonfarm Nonresidential	2,882	6.38
Agricultural Production	2,145	4.75
Commercial and Industrial	7,310	16.18
Consumer	11,138	24.65
Other	1,195	2.65
Total	45,187	100.0

Bank lobby services are provided Monday through Friday at the Clifton and Ranch House branch locations. The Valley Mills office is also open on Saturday. Drive-through services are provided Monday through Saturday at all three offices. FNB has a 24-hour telephone response system, which allows customers to obtain account balance information and transfer funds between accounts. FNB faces competition from branch banks located in Clifton, several Waco area banks and credit unions. There are no other banks located in Valley Mills.

The local economy remains stable and is primarily supported by financial and health-related businesses, retail businesses, and light manufacturing. Ranching and the agricultural industry also provide some additional support. One of the largest employers in the area is the Chemical Lime plant located between Valley Mills and Clifton. Many of the local residents commute to nearby Waco for employment opportunities.

No legal impediments or other factors hinder the bank’s ability to provide credit. At the last CRA examination in November 1997, FNB’s CRA rating was “Satisfactory.” Based on its financial condition, stable local economy, product offerings, competition, and prior performance, FNB has the ability to meet the various credit needs in its community.

## DESCRIPTION OF ASSESSMENT AREA

FNB’s overall AA includes one Metropolitan Statistical Area (MSA) and one Block Numbering Area (BNA). Two branches (Valley Mills and Clifton) are located in the Bosque County Non-MSA BNA and the Ranch House branch is located in the Waco MSA. Specific demographic data for both areas is listed below.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>		
<i>Population</i>	<i>BNA</i>	<i>MSA</i>
Number of Families	2,444	3,109
Number of Households	3,203	3,728
<i>Geographies</i>		
Number of Census Tracts/BNA	4	5
% Low-Income Census Tracts/BNA	0%	0%
% Moderate-Income Census Tracts/BNA	0%	0%
% Middle-Income Census Tracts/BNA	75%	40%
% Upper-Income Census Tracts/BNA	25%	60%
<i>Median Family Income (MFI)</i>		
1990 MFI for AA	\$24,585	\$28,954
2001 HUD-Adjusted MFI	\$35,800	\$45,400
<i>Economic Indicators</i>		
Unemployment Rate	1.89%	1.65%
2001 Median Housing Value	\$50,102	\$67,180
% of Households Below Poverty Level	14.21%	8.66%

The bank’s AA is made up of contiguous BNAs or census tracts, which surround and include each banking office. The consolidated AA includes a total of four BNAs and five census tracts. This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

### Bosque County Assessment Area

This AA includes three middle-income tracts and one upper-income tract located in Bosque County. Based on the 1990 Census data, the AA has a population of 8,206. According to the 1990 housing data as provided in the census, there are 4,230 housing units in this area of which 59% are owner-occupied, 18% renter-occupied, and 23% are vacant. Income information from the United States Department of Housing and Urban Development (HUD) reveals that the median family income (MFI) level for non-metropolitan areas in Texas was \$35,800 in 2001.

## Waco Assessment Area

This AA includes two middle-income tracts and three upper-income tracts, which are part of the Waco MSA in McLennan County. Based on 1990 Census data, the AA has a population of 10,634. According to the 1990 housing data provided in the census, there are 4,033 housing units in this area of which 76% are owner-occupied, 15% renter-occupied and 8% are vacant. HUD reveals that the MFI level for the Waco MSA is \$45,400.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted a local community leader, the Mayor of Valley Mills. All comments on the bank's performance were positive, especially with regards to FNB's willingness to make loans. The contact mentioned a potential lending opportunity regarding a shortage of low- and moderate- income housing and assisted living programs for the elderly community. The contact further stated that FNB is active in the community and responsive to the credit needs in the areas it serves.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's LTD ratio is very good, given its asset size, financial condition, and lending opportunities in the AA. Since the last CRA examination, the LTD ratio has decreased slightly from 73% at December 31, 1997 to 68% at December 31, 2001. The average LTD ratio over the past 17 quarters was 64%. The average LTD ratio of three similarly situated banks headquartered in the local area was 59% during this same time period. The asset size and LTD ratio for FNB and its competing banks are listed below.

Institution	Assets as of 12/31/01 (000s)	Average LTD Ratio (%)
Bosque County Bank, Meridian	50,187	56.42
First Security State Bank, Cranfills Gap	34,584	58.44
First National Bank, Moody	31,355	62.46
<i>First National Bank of Bosque County</i>	<i>73,717</i>	<i>64.17</i>

### Lending in Assessment Area

A substantial majority of the bank's loans are made within its AA, both MSA and non-MSA. In order to assess performance for this criteria, we reviewed a sample of 60 consumer loans and 60 commercial loans made in 2000 through 2001, and all mortgage-related loans originated in 2000 through 2001 that were reported on the Home Mortgage Disclosure Act (HMDA) Loan Application Register.

Our analysis determined that 84% of the number and 79% of the dollar amount of 1-4 family residential loans were made within the AA. We further determined that 72% of the number and 64% of the dollar amount of consumer loans were made within the AA. Finally, 80% of the number and 79% of the dollar amount of commercial loans were made within the AA. This distribution of loans is similar to internal bank reports and indicates that FNB is committed to meeting the credit needs in its local community.

<b>TOTAL LOANS REVIEWED</b>								
	<b><i>In Assessment Area</i></b>				<b><i>Out of Assessment Area</i></b>			
<b>Loan Type</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Residential	144	83.7	6677	79.0	28	16.3	1775	21.0
Consumer	43	71.7	133	63.8	17	28.3	75	36.2
Commercial	48	80.0	1235	79.0	12	20.0	329	21.0
<b>Total Reviewed</b>	<b>235</b>	<b>80.5</b>	<b>8045</b>	<b>78.7</b>	<b>57</b>	<b>19.5</b>	<b>2179</b>	<b>21.3</b>

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

FNB's loan portfolio reflects a good distribution of mortgage and consumer loans to individuals of various income levels and businesses of different sizes within the AA. In order to assess the bank's performance, we used HMDA information relative to mortgage-related loans originated in 2000 through 2001 and a sample of 41 consumer loans originated in 2000 and 2001.

Our analysis determined that FNB lends to all applicants, regardless of their income category. Our analysis of mortgage loans made to low-income families did not appear to reflect the make-up of the Bosque County AA. According to census demographic information, approximately 16% of this area are low-income families. Our sample indicated that 4.5% of all mortgage-related loans originated in the Bosque County AA were made to low-income families. Management indicated that there are little, if any, qualified homes available in this AA at selling prices for which low-income families could qualify. The following tables reflect the bank's performance in the metropolitan and non-metropolitan regions of their AA.

<b>RESIDENTIAL REAL ESTATE</b>								
<b>Waco MSA</b>								
<b>Borrower Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Families</b>	10.3		12.0		27.2		50.5	
	<b>% of Number</b>	<b>% of Amount</b>	<b>% of Number</b>	<b>% of Amount</b>	<b>% of Number</b>	<b>% of Amount</b>	<b>% of Number</b>	<b>% of Amount</b>
<b>Total</b>	6.1	4.9	27.3	16.0	24.2	17.2	42.4	61.9

<b>CONSUMER Waco MSA</b>								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	13.3		8.3		15.6		62.9	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
Total	20.0	14.7	40.0	36.0	30.0	42.2	10.0	7.1

<b>RESIDENTIAL REAL ESTATE Bosque County BNA</b>								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Families</i>	16.0		17.7		20.6		45.7	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
Total	4.5	1.1	13.5	9.4	25.2	21.1	56.8	68.4

<b>CONSUMER Bosque County BNA</b>								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	20.4		15.3		17.3		47.0	
	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>	<i>% of Number</i>	<i>% of Amount</i>
Total	33.3	29.2	4.8	2.1	42.9	48.0	19.0	20.7

FNB originates a satisfactory number of commercial-related loans, a number of which have been to “small businesses with revenues less than 1 million.” Management continues to focus on providing loans that will enhance the local economy. The following charts reflect our analysis of 40 commercial-related loans originated during 2000 through 2001.

<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES Waco MSA</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	96.2	3.8
% of Bank Loans in AA #	100.0	0
% of Bank Loans in AA \$	100.0	0



<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES</b>		
<b>Bosque County BNA</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	95.6	4.4
% of Bank Loans in AA #	100.0	0
% of Bank Loans in AA \$	100.0	0

### **Geographic Distribution of Loans**

As previously mentioned, all four BNAs and five census tracts located within FNB's AA are classified as middle- or upper-income areas. Therefore, an analysis of loan distribution by geographic area would not be meaningful.

### **Responses to Complaints**

FNB has received no complaints relating to the bank's performance under the CRA.

### **Fair Lending Review**

An analysis of consumer loans originated in 2000 through 2001, as well as a review of public file comments and consumer complaint information was performed in accordance with the OCC's risk-based fair lending examination standards. This analysis revealed no basis for the OCC to conduct a comprehensive fair lending examination in connection with this CRA evaluation. The latest fair lending examination was performed in November of 1997.