



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 10, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Shiner
Charter Number 5628

103 West 7th
Shiner, TX 77984

Office of the Comptroller of the Currency

San Antonio South
10001 Reunion Place, Suite 250
San Antonio, TX 78216-4133

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 Shiner's (FNB) lending performance reflects a satisfactory response to community credit needs in its assessment area (AA). Factors that support the overall rating include:

- The average loan-to-deposit (LTD) ratio of 40 percent over the prior 20 quarters is reasonable given the bank's size, financial condition, market focus, competition, and lending opportunities in the AA.
- A substantial majority of our sample of loans, 83 percent of the number and 90 percent of the dollar volume, originated within the AA of the bank.
- Lending activities represent a reasonable penetration among individuals of different income levels and businesses of different sizes.
- Geographic distribution of loans represents a reasonable dispersion.

SCOPE OF EXAMINATION

FNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

Our examination scope covered the time period from January 27, 2003, the date of the prior Performance Evaluation, to March 10, 2008, the as of date for the current examination. We identified agricultural, commercial, and residential loans to be the bank's primary loan products originated from January 27, 2003, through December 31, 2007. To evaluate FNB's lending performance, we selected a random sample of the bank's primary loan products. The lack of income information in the credit files limited our loan sample to 19 business loans and 19 agricultural loans. Residential lending was included in the sample of loans; however, it makes up a much smaller percentage of the portfolio, 9 percent, compared to 46 percent for agricultural loans and 29 percent for commercial loans. As a result, our sample was limited to 16 residential loans.

DESCRIPTION OF INSTITUTION

FNB is an intrastate bank headquartered in Shiner, Texas. FNB was chartered in 1900 and is independently owned with no affiliation with a bank holding company. As of December 31, 2007, FNB had total assets of \$101 million and tier one capital of \$14.7 million. The bank's one office consists of a walk-in teller lobby, a drive-up motor bank, and a deposit-taking ATM. FNB is a full-service bank and is one of six community banks headquartered within the AA.

As of December 31, 2007, FNB reported net loans of \$38 million and had a net loans and leases to total assets ratio of 37 percent. The loan portfolio composition is as follows:

Loan Portfolio Summary by Loan Product December 31, 2007	
Loan Category	% of Outstanding Dollars
Agriculture/Farm	46.14
Commercial	29.23
Residential	9.40
Consumer	8.37
Obligations of States & Political Subdivisions	6.86
Total	100.00%

Source: December 31, 2007 Consolidated Report of Condition

The bank was rated “Satisfactory” at the last CRA examination dated January 27, 2003. No legal impediments or other factors hinder the ability of FNB to provide credit needs in its AA. There have been no changes in the bank’s corporate structure.

DESCRIPTION OF LAVACA/GONZALES COUNTIES ASSESSMENT AREA

FNB designated all of Lavaca and Gonzales Counties as its AA. The AA, which is not included in a metropolitan statistical area, includes the cities of Shiner, Yoakum, Hallettsville, Gonzales, and Moulton. The AA includes twelve census tracts with one tract designated moderate-income, ten tracts designated middle-income, and one tract designated upper-income. Four of the ten middle-income tracts were identified as being distressed due to population loss. The AA does not include any low-income census tracts. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Shiner is located 84 miles east of San Antonio and roughly 150 miles west of Houston. According to the U.S. Census Bureau, as of 2006, the city of Shiner has an estimated population of 2,021, down slightly from the 2000 Census of 2,070. Economic conditions are currently stable. The economy of the AA is largely dependent upon farming, ranching, and small businesses. The following table is a summary of demographic information for this AA:

Demographic Information for the Lavaca/Gonzales AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	12	N/A	8.33%	83.33%	8.33%
Population by Geography	37,838	N/A	9.77%	78.72%	11.51%
Owner-Occupied Housing by Geography	10,703	N/A	8.34%	80.71%	10.95%
Businesses by Geography	2,086	N/A	7.57%	87.06%	5.37%
Farms by Geography	274	N/A	6.57%	84.67%	8.76%
Family Distribution by Income Level	10,329	21.20%	18.55%	20.50%	39.75%
Household Distribution by Income Level	14,463	25.63%	17.38%	18.18%	38.81%
Census Median Family Income (MFI)		\$36,380	Median Housing Value		\$57,824
HUD – Adjusted MFI: 2007		\$43,100	Families Below the Poverty Level		17.37%
HUD – Adjusted MFI: 2006		\$43,100	Unemployment Rate		1.65%
HUD – Adjusted MFI: 2005		\$42,000			

Source: 2007 Business Geodemographic Data; 2000 U.S. Census Data.

FNB's competition consists of five independent community banks, and four nationwide bank branches of two large banks headquartered outside the AA.

This office conducted one community contact with a member of a local community organization in FNB's AA. The contact identified small business, farm, and ranch loans as credit needs in Lavaca and Gonzales Counties. The contact was favorable in their comments about the performance of FNB and its participation in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products originated since the previous CRA examination: agricultural loans; commercial loans; and residential loans. The sample of loans was selected to determine the extent of lending within the AA, the distribution of loans by borrower income level, and the geographic distribution of loans.

Loan-to-Deposit Ratio

FNB's quarterly average LTD ratio, 40.38 percent, is reasonable compared to the other banks in the AA that management considers its primary competition. We compared the average LTD ratio for the past 20 quarters of FNB to other banks in the AA. FNB's LTD ratio has fluctuated from a low of 30.58 percent at March 31, 2003, to a high of 47.06 percent at September 30, 2007. At December 31, 2007, the LTD ratio was 43.93 percent.

Institution	Assets as of 12/31/07 (000s)	Average LTD Ratio 12/31/02 - 12/31/07
Lone Star Bank SSB Lavaca County, Moulton, Texas	\$134,951	93.17%
American National Bank Gonzales County, Gonzales, Texas	\$219,349	69.46%
Yoakum National Bank Lavaca County, Yoakum, Texas	\$123,218	52.82%
First State Bank DeWitt County, Yoakum, Texas	\$94,677	51.89%
First National Bank Shiner <i>Lavaca County, Shiner, Texas</i>	\$101,078	40.38%
Peoples State Bank of Hallettsville Lavaca County, Hallettsville, Texas	\$162,189	25.14%

Source: Quarterly Call Report Information.

Lending in Assessment Area

FNB exceeds the standards for satisfactory performance with a substantial majority of loans originating in its AA. We reviewed a sample of agricultural, commercial, and residential loans that originated since the prior evaluation. The following table reflects the distribution of loans, by number and dollar volume, which originated in and out of the AA.

Lending in Lavaca/Gonzales AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	16	84.21	3	15.79	19	3,779	95.94	160	4.06	3,939
Agriculture	15	78.95	4	21.05	19	2,112	84.18	397	15.82	2,509
Residential	14	87.50	2	12.50	16	713	82.82	148	17.18	861
Total Reviewed	45	83.33	9	16.67	54	6,604	90.35	705	9.65	7,309

Source: Loan Sample; selected at random from bank records.

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

Overall, FNB meets the standards for satisfactory performance with reasonable distribution of loans to borrowers of different incomes and businesses and farms of different sizes. We selected a sample of loans in the AA to evaluate performance for residential loans, small business loans, and small farm loans. The following narratives and tables document our findings.

Our analysis of residential lending activity reflected percentages lower than those reported in the demographic data for low-income families. Households below the poverty level represent 17 percent of the total households in the AA. The level of income for low-income families, based on the 2007 HUD-adjusted median family

income, is \$21,549 or less. This level of income could inhibit potential borrowers from qualifying for residential loans, since the 2007 median housing value is \$57,824. Residential lending activity to moderate-income borrowers exceeds the demographic data for moderate-income families.

Borrower Distribution of Residential Real Estate Loans in Lavaca/Gonzales AA								
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	21.20	14.29	18.55	42.86	20.50	7.14	39.75	35.71

Source: Loan Sample; 2000 U.S. Census Data.

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Fifty-six percent of the bank’s business loans originated and purchased during the loan sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is considered reasonable compared to demographic data that shows 63 percent of the area’s businesses are considered small businesses. Also, 32 percent of the businesses did not report revenue data. The following table shows the distribution of commercial loans among different sized businesses in the AA.

Borrower Distribution of Loans to Businesses in Lavaca/Gonzales AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	63.28	4.41	32.31	100%
% of Bank Loans in AA by #	56.25	37.50	6.25	100%
% of Bank Loans in AA by \$	33.09	19.28	47.63	100%

Source: Loan sample; 2007 Business Geodemographic Data.

The distribution of loans to farms reflects excellent penetration among farms of different sizes. Nearly 93 percent of the bank’s agricultural loans originated and purchased during the loan sampling period were made to small farms. The following table shows the distribution of agricultural loans among different sized farms in the AA.

Borrower Distribution of Loans to Farms in Lavaca/Gonzales AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farm	90.51	4.38	5.11	100%
% of Bank Loans in AA by #	92.86	7.14	0	100%
% of Bank Loans in AA by \$	95.16	4.84	0	100%

Source: Loan sample; 2007 Business Geodemographic Data.

Geographic Distribution of Loans

Overall, the distribution of loans reflects a reasonable dispersion throughout the bank's AA. As previously noted, there is only one moderate-income census tract in the bank's AA and it is in Gonzales County. Census bureau information indicates that 18 percent of the families in the AA live in the moderate-income area. A contributing factor to the absence of lending in the moderate-income tract is the distance between FNB's one office in Lavaca County and the tract located on the far side of Gonzales County. The moderate-income tract is better served by other financial institutions that are within the AA and closer to that tract. Furthermore, there are other financial institutions in adjacent counties that are also closer to the tract than is FNB. Therefore, it is reasonable that the bank has no lending activity in the moderate-income tract as reflected in the tables that follow.

Geographic Distribution of Residential Real Estate Loans in Lavaca/Gonzales AA								
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	N/A	N/A	8.34	0	80.71	100	10.95	0

Source: Loan Sample; 2000 U.S. Census Data.

Geographic Distribution of Loans to Businesses in Lavaca/Gonzales AA								
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	N/A	N/A	7.57	0	87.06	93.75	5.37	6.25

Source: Loan Sample; 2007 Business Geodemographic Data.

Geographic Distribution of Loans to Farms in Lavaca/Gonzales AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Agriculture/Farm	N/A	N/A	6.57	0	84.67	80	8.76	20

Source: Loan Sample; 2007 Business Geodemographic Data.

Responses to Complaints

FNB has not received any consumer complaints related 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.