



SMALL BANK

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

PUBLIC DISCLOSURE

June 13, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 20078**

**3801 Fairway Boulevard
Wichita Falls, TX 76308**

**Comptroller of the Currency
Dallas Field Office
17300 Dallas Parkway, Suite 2020
Dallas, TX 75248**

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 National Bank of Wichita Falls (FNB) reflects a satisfactory performance in meeting the credit needs of its community. This assessment is based on the following conclusions:

- A majority of the loans generated were within the assessment areas (AA). The sample indicated that 80% of the number of loans and 84% of the dollar volume of loans were generated within the AA.
- A majority of the number of commercial loans originated within the AA were to new businesses or to businesses with revenues less than \$1 million. The sample indicated that 75% of the numbers of commercial loans originated within the AA were to new and/or to small businesses.
- The loan-to-deposit ratio of 84% exceeds those of similarly situated institutions located in the AA.

DESCRIPTION OF INSTITUTION

FNB is a community bank chartered in 1986 and is a wholly owned subsidiary of Wichita Falls Bancshares. As of March 31, 2007, FNB had \$178 million in assets with \$146 million in loans and \$160 million in deposits. FNB has three branches, two in Wichita Falls and one in Southlake, TX. Hours of operation at each branch are convenient and commensurate with other banks in the area. The bank offers a full range of traditional loan and deposit services.

Loan Category	\$ (000)	%
Commercial Real Estate	34,927	24%
Commercial	34,248	23%
Construction & Development	28,083	19%
Consumer	25,173	17%
Residential Real Estate	23,712	16%
Other Loans	101	1%
Total	146,244	100%

FNB was rated "Satisfactory" in its previous CRA Public Evaluation dated April 30, 2002. The bank has no legal, financial, or other factors impeding its ability to meet the credit needs of its AA.

Due to the location of FNB’s branches, the two AA were reviewed independently to determine their lending performance. The following sections provide a description of each AA.

DESCRIPTION OF WICHITA/ARCHER COUNTIES

FNB’s AA consists of 39 census tracts located within Wichita and Archer Counties. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income census tracts. The following table reflects the demographics for the Wichita/Archer Counties AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	35,615
Number of Households	51,782
Geographies	
Number of Census Tracts	39
# - % Low-Income Census Tracts	1 – 3%
# - % Moderate-Income Census Tracts	13 – 33%
# - % Middle-Income Census Tracts	15 – 38%
# - % Upper-Income Census Tracts	10 – 26%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$42,637
2005 HUD-Adjusted MFI	\$47,600
2006 HUD-Adjusted MFI	\$49,100
Economic Indicators	
Unemployment Rate	2.5%
2000 Median Housing Value	\$64,031
% of Households on Social Security	27%
% of Households Below Poverty Level	13%
% of Households on Retirement	17%

The AA has thirteen financial institutions that operate within the area. They are comprised of multi-regional national and state chartered banks. The economy in Wichita/Archer Counties is well diversified. Major employers include Sheppard Air Force Base, Wichita Falls ISD, North Texas State Hospital, Midwestern State University, and numerous other industrial and retail employers.

To assess the credit needs of the community, we interviewed the Director of Community Services. The primary responsibility as director is to serve as administrator of the Community Development Block Grant Program (CDBG) and any housing funds. The primary credit need of

the community is low cost housing. He indicated that the local banks strive to meet the credit needs of the community.

DESCRIPTION OF SOUTHLAKE ASSESMENT AREA

FNB’s Southlake AA consists of 22 census tracts located within three north Texas counties. Nineteen census tracts are located in the northeast corner of Tarrant County, two census tracts are located in the southern part of Denton County, and one census tract is located in the northwest corner of Dallas County. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income census tracts. The following table reflects the demographics for the Southlake AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	36,646
Number of Households	44,137
Geographies	
Number of Census Tracts	22
# - % Low-Income Census Tracts	0 – 0%
# - % Moderate-Income Census Tracts	0 – 0%
# - % Middle-Income Census Tracts	2 – 9%
# - % Upper-Income Census Tracts	19 – 86%
# - % Unknown Census Tracts	1 – 5%
Median Family Income (MFI)	
2000 MFI for AA	\$100,872
2005 HUD-Adjusted MFI	\$61,997
2006 HUD-Adjusted MFI	\$63,591
Economic Indicators	
Unemployment Rate	1.2%
2000 Median Housing Value	\$193,834
% of Households on Social Security	11%
% of Households Below Poverty Level	3%
% of Households on Retirement	11%

There are 30 financial institutions that operate within the AA. They are comprised mainly of multi-regional national and state chartered banks. The economy in the Southlake AA is well diversified. Major employers include Sabre, Tri-Dal, and Verizon Wireless.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Our assessment of the bank's overall lending performance was based on a sample of the bank's primary loan types. The primary loan types were derived based on the number of loans and the dollar volume of loans originated within the evaluation period of December 31, 2004 through March 31, 2007. Our analysis indicated that for both the Wichita/Archer Counties and Southlake assessment areas, the primary loan types were consumer and commercial loans. The bank's Home Mortgage Disclosure Act (HMDA) information was also included in our analysis.

Overall, FNB exceeds the standards of satisfactory performance. The bank's strengths include its loan-to-deposit ratio and lending within its assessment area.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio (LTD) exceeds the standards for satisfactory performance. As of March 31, 2007, the bank's LTD was 90.11%. Since our last CRA review, the bank has a 20-quarter average LTD of 84.12%. The bank's LTD exceeds the majority of other similarly situated financial institutions located within the AA as detailed in the following table.

Institution	Assets ('000's) As of 3/31/2007	Average LTD Ratio
First Bank	197,878	86%
United Community	119,818	86%
<i>First National Bank</i>	<i>178,505</i>	<i>84%</i>
National Peer Average*	\$100-\$300 Million	80%
Bank of The West	208,588	73%
Fidelity Bank (15 Quarters Average)	141,187	69%
First Financial Bank	294,706	56%
State National Bank of Texas	151,427	55%

*The National Peer group consists of banks with average assets between \$100 million and \$300 million, have three or more banking offices, and are located in a metropolitan statistical area.

Lending in Assessment Area

Based on our loan sample, FNB's lending within its AA exceeds the standards for satisfactory performance. Our analysis indicated that 80% of the number of loans and 84% of the dollar volume of loans were originated within the bank's AA. Our sample consisted of 40 consumer and 40 commercial loans originated within our evaluation period December 31, 2004 through March 31, 2007, as well as, the bank's HMDA reported information from the same timeframe.

Lending in Wichita/Archer & Southlake AA's										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Home Purchase	103	91	10	9	113	9,274	81	2,178	19	11,452
Refinance	21	91	2	9	23	2,360	88	337	12	2,697
Home Improvement	10	91	1	9	11	209	93	15	7	224
Commercial	29	73	11	27	40	12,852	88	1,827	12	14,679
Consumer	19	48	21	52	40	208	36	365	64	573
Totals	182	80	45	20	227	24,904	84	4,722	16	29,626

Source: Loan sample; HMDA data.

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

FNB's performance in lending to borrowers of different income levels and to businesses of different sizes meets the standards for satisfactory performance.

FNB's distribution of residential real estate loans to borrowers of different income levels is commensurate with the demographic of its AA and meets the standards for satisfactory performance.

Borrower Distribution of Residential Real Estate Loans								
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
Home Purchase	12	10	14	14	18	20	56	56
Refinance	12	14	14	14	18	14	56	52
Home Improvement	12	20	14	0	18	20	56	50

Source: HMDA; U.S. Census data.

HMDA data includes 2 loans with no reported income levels.

In addition to residential real estate loans, we sampled 20 consumer loans from the Wichita/Archer County AA and 20 from the Southlake AA. Based on our loan sample, the distribution of consumer loans to borrowers of different income levels exceeds the standards for satisfactory performance. In both AA, the penetration to low and moderate income level borrowers was excellent.

Borrower Distribution of Consumer Loans in Wichita/Archer Counties								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	22%	35%	17%	20%	20%	20%	41%	25%

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

Borrower Distribution of Consumer Loans in Southlake AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	7%	10%	8%	25%	12%	0%	73%	65%

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

Moreover, we sampled 20 commercial loans from each of the AA. Based on our loan sample, the distribution of loans to small businesses meets the standards for satisfactory performance. The Southlake AA indicates a large number of loans with unknown revenues. After discussion with management, it was determined that a majority of these loans were to new business entities that have not yet reported revenues.

Borrower Distribution of Loans to Businesses in Wichita/Archer Counties				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67%	5%	28%	100%
% of Bank Loans in AA by #	65%	35%	0%	100%
% of Bank Loans in AA by \$	40%	60%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

Borrower Distribution of Loans to Businesses in Southlake				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65%	5%	30%	100%
% of Bank Loans in AA by #	30%	15%	55%	100%
% of Bank Loans in AA by \$	11%	10%	79%	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

FNB's geographic distribution of residential real estate loans meets the standards of satisfactory performance. Based on the bank's HMDA data, the number of loans generated for residential real estate purposes within the AA is commensurate with the demographic make up of the AA.

Geographic Distribution of Residential Real Estate Loans in Wichita/Archer Counties								
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
Home Purchase	2	1	18	17	46	42	34	40
Home Improvement	2	0	18	30	46	30	34	40
Refinancing	2	0	18	10	46	43	34	47

Source: Data reported under HMDA; U.S. Census data.

FNB's geographic distribution of loans to consumers does not meet the standards for satisfactory performance. Based on our sample, more concentration is needed to improve the penetration in the low- to moderate-income census tracts. However, FNB's management feels that our sample may not be an accurate depiction of the bank's consumer lending patterns. A quick review performed by management, although not confirmed, revealed a reasonable distribution of consumer lending in the AA. Management stated that one moderate tract is located in the downtown area where there is not a lot of residential housing. Other moderate-income tracts include an industrial sector of town, a farming community and Sheppard Air Force Base. Also, management believes that the geographic proximity to the bank's office in relation to the moderate-income tracts may also be a factor in the low penetration.

Geographic Distribution of Consumer Loans in Wichita/Archer Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	3%	0%	33%	0%	38%	45%	26%	55%

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

FNB's geographic distribution of loans to businesses meets the standards of satisfactory performance. Based on our sample, the number of loans generated within the AA is commensurate with the demographic make up of the AA.

Geographic Distribution of Loans to Businesses in Wichita/Archer Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	1%	0%	32%	30%	33%	20%	34%	50%

Source: Loan sample; Dunn and Bradstreet data.

FNB's Southlake AA does not contain any low- or moderate-income census tracts; therefore, an analysis of geographical distribution of loans in this AA would not be meaningful.

Responses to Complaints

There were no CRA related complaints against FNB during the 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.