



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**January 22, 2007**

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

**First Community Bank of San Benito  
Charter Number 16809**

**1151 West Highway 77  
San Benito, TX 78586**

**Comptroller of the Currency  
San Antonio South  
10101 Reunion Place Boulevard Suite 402  
San Antonio, TX 78216**

**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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## **This institution is rated “Satisfactory.”**

- First Community Bank’s (FCB) lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA).
- The bank’s loan-to-deposit (LTD) ratio is reasonable given local economic conditions and AA demographics. The LTD ratio averaged 58% during the evaluation period.
- A substantial majority of FCB’s loans are within its AA.
- FCB has demonstrated an excellent willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- There have been no complaints with respect to FCB’s CRA performance.

## **DESCRIPTION OF INSTITUTION**

FCB is an independently owned commercial bank with assets of \$127 million, as of September 30, 2006. The main office is located in San Benito. The bank has a total of six full service branches located in San Benito (2), Harlingen (3), and Los Fresnos (1). The bank has partnered with Valley Baptist Medical Center (VBMC) and has one branch located inside of the Harlingen VBMC while another is expected to open by April 2007 inside the Brownsville VBMC. Since the last performance evaluation (PE), FCB has added four branches, and, as previously stated, expects to open an additional one in 2007. All of the branches are located in Cameron County. The bank is a wholly owned subsidiary of San Benito Bancshares, Inc., a one-bank holding company. The bank is the only subsidiary of the holding company; therefore, total assets are the same. Competition is strong, with several other community banks and regional bank branches located in the area. The following table gives a detailed breakdown of FCB loan portfolio.

<b>Loan Type</b>	<b>Dollar Amount (000's)</b>	<b>% of Total Loans * Less than 1%</b>
Real Estate (RE) Construction	30,861	41
Commercial and Industrial	14,022	19
RE Nonfarm Nonresidential	10,010	13
Consumer	8,604	12
RE Residential (1-4)	6,591	9
RE Residential (Multifamily)	1,690	2
Municipal Obligations	1,313	2
RE Farmland	948	1
Agricultural Production	813	1
Other	136	*
<b>Total</b>	<b>74,988</b>	<b>100.0</b>

Bank lobby and drive-through services are provided Monday through Saturday, with the

exception of the Harlingen VBMC location which is closed on Saturdays. There are Automated Teller Machines (ATM) located at all bank locations that allow customers to obtain cash, account balance information, and transfer funds between accounts. FCB also offers 24-hour banking services via the Internet and Telebank. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FCB has the ability to meet the various credit needs in its community. The bank was rated “Satisfactory” at the last CRA examination on April 22, 2002. No legal impediments or other factors hinder FCB’s ability to provide credit in its AA.

## DESCRIPTION OF CAMERON COUNTY

FCB recently designated all of Cameron County as its AA due to the upcoming branch opening at the Brownsville VBMC in April 2007. In prior years, FCB only declared the northern two-thirds of Cameron County as its AA as it had no branch located in the City of Brownsville. Cameron County is located in the lower Rio Grande Valley, and comprises the Brownsville-Harlingen-San Benito Metropolitan Statistical Area (MSA). The AA includes, but is not limited to, the cities of San Benito, Harlingen, La Feria, Los Fresnos, Port Isabel, and South Padre Island. Brownsville is the county seat of Cameron County. Specific demographic data for this area is listed below. For purposes of this PE, we assessed the bank’s performance using the northern two-thirds of Cameron County as its AA. The branch in Brownsville will not open until later this year, and there are very few loans that are originated in Brownsville. According to management, a substantial majority of the bank’s loan are originated in Harlingen, San Benito, and Los Fresnos.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b>Population</b>	
Number of Families	44,890
Number of Households	55,694
<b>Geographies</b>	
Number of Census Tracts	39
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	21%
% Middle-Income Census Tracts	46%
% Upper-Income Census Tracts	33%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$28,017
2005 HUD-Adjusted MFI	\$32,300
2006 HUD-Adjusted MFI	\$33,000
<b>Economic Indicators</b>	
Unemployment Rate	3.58%
2006 Median Housing Value	\$58,997
% of Households Below Poverty Level	25%

The bank's AA is comprised of 39 contiguous census tracts. This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies.

Based on the 2000 Census data, the AA has a population of approximately 181 thousand. There are no low-income census tracts located within the AA. Eight census tracts are in moderate income areas. There are 73 thousand housing units in the AA of which 55% are owner-occupied, 21% renter-occupied and 24% vacant. Major employers in the AA include the school district, local and federal government, and health services.

In order to gather more current information on the nature of the community and potential lending opportunities within the AA, we contacted two community leaders involved with the Economic Development Corporation and the San Benito Housing Authority (SBHA) during this evaluation. These contacts stated that economic conditions in San Benito were improving. The population of San Benito has increased over the years, which has also increased pressure on the city's infrastructure. Though the city has experienced growth in the retail industry, additional commercial growth is needed to improve tax revenues for city infrastructure. Though there has been an increase in residential development, there is a need for affordable housing. The representative from the SBHA noted that there is a limited supply of affordable housing units in San Benito. The contacts further stated that there is a need for better paying jobs as there is a large percentage of the population living below the poverty level.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Management is performing satisfactorily and has been successful in meeting the credit needs of its AA, including LMI individuals, consistent with its resources and capabilities.

### **Loan-to-Deposit Ratio**

FCB's LTD ratio is considered satisfactory, given its asset size, financial condition, and lending opportunities in the AA. Since the last CRA examination, the LTD ratio has increased from 52% at March 30, 2001, to 63% at September 30 2006. The average LTD ratio over the past 19 quarters was 58%, which is slightly above an average 57% during the previous evaluation.

Such performance is consistent and reasonable given the substantial dollar volume of public funds (\$15 million) deposited by local governments, and available loan demand in the AA. A LTD ratio of 73% is obtained upon netting these public funds. The following table provides average LTD ratios for other similarly situated banks. Please note that Rio Bank and Border Capital Bank are located in McAllen, and are provided greater lending opportunities given economic conditions within the area. The South Padre Island banks are also located in a commercially concentrated tourism area.

<b>Institution</b>	<b>Assets as of 09/30/06*</b>	<b>Average LTD Ratio %**</b>
Border Capital Bank – McAllen	177,741	89.39
Texas NB - Mercedes	48,548	87.10
South Padre NB	39,952	84.69
Rio Bank - McAllen	120,188	79.85
Elsa State Bank & Trust	139,502	64.34
<b><i>First Community Bank – San Benito</i></b>	<b><i>127,331</i></b>	<b><i>57.59</i></b>
FNB South Padre Island	52,945	45.05

\* *Asset size of institutions are in thousands (000's)*

\*\**The average LTD ratio is based on the period between January 2002 and September 2006.*

### **Lending in Assessment Area**

A substantial majority of the bank’s loans are made within its AA. We reviewed a loan sample of consumer and commercial loans originated within the last three years. We also reviewed a sample of residential loans reportable under the Home Mortgage Disclosure Act (HMDA). These residential loans were originated between 2004 and 2005. Our analysis determined that 91% of the number and 95% of the dollar amount of all loans were made within the AA.

<b>TOTAL LOANS REVIEWED</b>								
	<b>IN ASSESSMENT AREA</b>				<b>OUT OF ASSESSMENT AREA</b>			
<b>LOAN TYPE</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Consumer	30	91	187	93	3	9	14	7
Commercial	30	97	7,759	98	1	3	198	2
04-05 HMDA	58	89	2,289	89	7	11	282	11
Total Reviewed	118	91	10,235	95	11	9	494	5

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

FCB’s loan portfolio reflects an excellent distribution of consumer loans to individuals of various income levels. Based on the 2000 Census, 38% of AA households are LMI. Our sample of 26 consumer loans determined that 77% of consumer loans were made to LMI households. The following chart reflects the results of our selected sample of consumer loans originated in FCB’s AA.

<b>CONSUMER</b>								
<b>Borrower Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Households</b>	23		15		17		45	
	<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>
Total	48	33	29	39	10	2	13	26

The residential loan sample based on HMDA reportable data indicated that the bank’s distribution of loans was within AA demographics, with the exception of the penetration to low income demographics. As stated previously, the community contacts made during this evaluation supported the need for affordable housing in the area. Bank management further stated that low income individuals seek mortgages elsewhere due to the availability of low-income housing programs. We did note however, that the distribution to moderate income families exceeded AA demographics.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21		16		18		45	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
HMDA 04-05	13	5	20	17	15	15	53	63

FCB originates a substantial dollar volume of business related loans under \$1 million. Our loan sample of 20 commercial loans indicated that 97% of the dollar volume within this sample was made to businesses with revenues less than \$1 million.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94	6
% of Bank Loans in AA #	85	15
% of Bank Loans in AA \$	97	3

### Geographic Distribution of Loans

Since there are no low-income census tracts located within the AA, we focused our review on the bank’s distribution of loans to moderate income geographies. The distribution of loans within the AA is excellent given the demographics of the AA.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0		15		48		37	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	0	0	19	12	43	48	38	40

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0		12		51		37	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
HMDA 04-05	0	0	16	10	52	51	32	39

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		20		40		40	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	0	0	30	33	35	43	35	24

### Responses to Complaints

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

### Fair Lending Review

An analysis of January 2001 through December 2006 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Risk assessments of lending processes and controls indicate that sufficient risk management practices are in place to ensure compliance with fair lending laws and regulations. Our review did not identify any issues that would be considered discriminatory in nature.