

SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 19, 2002

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**The First National Bank of Holland
Charter Number 8008**

**200 W. Travis
Holland, TX 76534**

**Comptroller of the Currency
ADC - Austin
8310 Capital Of Texas Highway North Suite 250
Austin, TX 78731**

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.

Lending performance for the First National Bank (FNB) of Holland is satisfactory given its size, financial condition, and known credit needs of its assessment area (AA).

- The loan-to-deposit (LTD) ratio is satisfactory, averaged 47% since our last examination, and is in line with other banks in the AA.
- A substantial majority of the bank’s loans are in the AA.
- FNB has demonstrated a willingness to extend loans to individuals of varying incomes and small businesses of different sizes that meet the standard for satisfactory performance.
- The geographic distribution of loans throughout the AA meets the standard for satisfactory performance.
- 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 an \$8 million one-office bank headquartered in Holland, Texas, which is approximately 50 miles northeast of Austin, Texas. A drive-in facility is provided at the main office. The bank does not own an automated teller machine (ATM). However, the bank does issue ATM “Pulse” cards, which can be used by bank customers to obtain cash withdrawals and transfers between accounts at ATMs owned by other institutions.

The bank’s primary focus is to promote economic development in its assessment area through its lending programs. FNB’s market niche is consumer, small business, and agricultural loan products. The following reflects a detailed breakdown of FNB’s loan portfolio as of June 30, 2002.

Loan Category	\$ (000)	%
RE Farmland	14	0.4
RE Residential (1-4)	154	4.3
RE Nonfarm Nonresidential	13	0.4
Agricultural Production	343	9.6
Commercial and Industrial	119	3.3
Consumer	2,759	81.1
Other	33	0.9
Total Loans	3,435	100%

Complete banking services are provided Monday through Friday at the one office. FNB faces competition from area banks, savings and loans, and credit unions. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FNB has the ability to meet the various credit needs in its community. At the last CRA examination in April 1998, the bank’s CRA rating was “Satisfactory.” No legal impediments or other factors hinder FNB’s ability to provide credit.

DESCRIPTION OF ASSESSMENT AREA

FNB's AA consists of 19 census tracts located in eastern Bell County, which are part of the Killeen-Temple Metropolitan Statistical Area (MSA). This AA includes the communities of Holland, Bartlett, Salado, Rogers, Little River, Troy, and the cities of Belton and Temple. The 1990 census data indicates that six tracts are categorized as moderate-income, four are middle-income, and nine are upper-income. These areas have a census population of 49,000. A review of FNB's lending practices disclosed no evidence of illegal discrimination. There were no instances where management arbitrarily excluded low-to moderate-income (LMI) individuals or families from the AA.

Approximately 19% of the families in the AA are considered low-income. Moderate-income families approximate 14% of the population, while middle- and upper-income families compromise the remaining 67%. The local economy is considered good. Major employers in the AA include the agricultural industry, local school districts, and the Wilsonart and McLane companies. Income data from the 1990 census revealed that the weighted-average median family income (MFI) for this area is \$32,000. Updated 2002 information indicates that the weighted-average MFI has increased to \$40,000.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted a local business leader during the examination. This contact stated that FNB is active in the community and responsive to credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

To better understand the bank's performance, we performed an LTD analysis of 4 other community banks that are similarly situated. The average LTD ratio for these four banks is 52.8%. FNB's LTD ratio of 47.1% is satisfactory given its asset size, financial condition, and lending opportunities available in the AA.

Institution	Assets (as of 3/31/2002)	Average LTD Ratio
Granger NB – Granger	\$20,010	33.3%
Schwertner State Bank - Schwertner	\$20,508	72.3%
Eagle Bank – Jarrell	\$17,595	46.7%
1 st State Bank – Granger	\$68,280	58.8%
<i>FNB Holland</i>	<i>\$ 8,331</i>	<i>47.1%</i>

Lending in Assessment Area

A substantial majority of the bank's loans are within its AA. Using internal reports provided by management and visual observations from county maps, an analysis of lending patterns within the assessment area was performed. These reports included loans originated since March 31, 1998. Management's analysis indicated that 84% of the number and 78% of the dollar amount of total loans were within the bank's AA.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Total Loans	500	83.9%	\$2,664	77.6%	96	16.1%	\$771	22.4%

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

The loan portfolio reflects a reasonable distribution of loans extended to individuals of various income levels as well as business and farms with revenues less than \$1 million. In order to assess the bank's performance, a sample of 49 loans originated since the 1998 evaluation were reviewed. Data collected was compared to current census demographic criteria in order to assess performance.

CONSUMER									
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER		
% of AA Households	26.1%		13.6%		16.3%		44.0%		
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	
Total	20	7.5	30	32.6	20	15.2	30	44.7	

A sample of 20 consumer loans was reviewed during this evaluation. The analysis of consumer loans reflected a distribution of loans to upper- and middle-income families that is representative of area demographics. The distribution of consumer loans to low-income families did not meet the characteristics of the AA. Although lending to this group is low, FNB is meeting the credit needs of the community through the strong penetration of lending to the moderate-income borrower.

FNB originates commercial and agricultural-related loans in a manner that exceeds area demographics. The bank's distribution of loans to "small businesses and farms with revenues less than 1 million" is reflective of FNB's focus on providing loans that will enhance the local economy. The following charts reflect data from the review of 20 agricultural-related loans and the 9 business loans originated since the prior examination.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	88.1%	11.9%
% of Bank Loans in AA #	100.0%	0.0%
% of Bank Loans in AA \$	100.0%	0.0%

BORROWER DISTRIBUTION OF SMALL LOANS TO FARMS		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Farms	93.8%	6.2%
% of Bank Loans in AA #	100.0%	0.0%
% of Bank Loans in AA \$	100.0%	0.0%

Geographic Distribution of Loans

The geographic distribution of FNB’s loans is reasonable given the demographics of the assessment area, taking in consideration the location of the census tracts within eastern Bell County and the location of the bank office. Our analysis included a sample of consumer loans originated since our last review. This sample revealed that the geographic distribution of loans does not reflect the make-up of the bank’s assessment area. This is not surprising given that most loan applications for credit are received from residents who live in and around the community of Holland, which is a middle-income area.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.0%		28.0%		25.5%		46.5%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0	0	5.0	2.1	90.0	88.0	5.0	9.9

Responses to Complaints

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

Fair Lending Review

FNB has not been subjected to a Fair Lending review. However, a review of complaint records and consumer files during this evaluation period provided no indication of disparate treatment.