



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 07, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Friona State Bank, National Association
Charter Number 24321

1105 North Cleveland Avenue
Friona, TX 79035-0000

Office of the Comptroller of the Currency

FORT WORTH
9003 Airport Freeway Suite 275
North Richland Hills, TX 75201-3342

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 Friona State Bank, National Association reflects satisfactory responsiveness to its community's credit needs. This assessment is based on the following conclusions:

- The bank's average loan-to-deposit ratio of 100.3% since the previous CRA examination exceeds the standards for satisfactory performance given the bank's size, financial condition, local competition, and assessment area credit needs.
- A majority of the bank's lending activity is within the assessment areas. Based on the loans reviewed in our sample, 88% of the number and 96% of the dollar amount were originated within the Parmer County assessment area, and 85% of the number and 67% of the dollar amount were originated within the Oldham County assessment area.
- The distribution of loans among individuals of different income levels and businesses of different sizes meets the standards. A significant portion of our consumer samples was to low and moderate income households. Also, the bank makes a large volume of small dollar loans.

SCOPE OF EXAMINATION

The evaluation period for our assessment of Friona State Bank, NA (FSB) CRA efforts, was January 1, 2007 to December 31, 2007. Loan products evaluated include consumer loans, commercial loans and agriculture loans. We performed a full-scope review of Friona's assessment areas – Parmer and Oldham Counties, Texas, which was the basis of our overall rating of FSB's CRA efforts. During our initial review we noted that the Friona facility conducted the vast majority of the lending activity. We found that there were not sufficient numbers of commercial and agriculture related loans generated from the Vega facility to draw representative samples. Our conclusions are based on consumer samples from both facilities and commercial and agriculture samples from the Friona Facility.

DESCRIPTION OF INSTITUTION

FSB is a community bank in Friona, Texas, which is located approximately 75 miles southwest of Amarillo, Texas. The bank operates from two locations: the main facility on Highway 60 in Friona, and a branch in Vega, Texas, located approximately 35 miles west of Amarillo, Texas. Each facility includes a full-service lobby and drive-thru teller. The Friona facility has an automated teller machine.

FSB is a full service community bank offering a wide variety of loan and deposit products. The bank also offers transactional internet banking. As of September 30, 2007, FSB had total assets of \$78.5 million. The bank's major lending activities are summarized in the following table.

Loan Category	\$ (000)	%
Agricultural Loans	\$25,337	35%
Commercial Loans	\$24,186	34%
Real Estate Loans – Other	\$8,617	12%
Real Estate Loans – Farmland	\$6,206	9%
Consumer Loans	\$2,668	4%
Other	\$2,580	4%
Real Estate Loans – Residential	\$1,175	2%
Total	\$70,769	100%
Percentage of Loans to Total Assets	90%	

The bank was purchased by Olney Bancshares of Texas, Inc. September 30, 2001. The new ownership brings significant experience in agriculture-related lending. The bank will continue to have a lending emphasis in the agricultural industry.

FSB is a wholly-owned subsidiary of Olney Bancshares, a multi-bank holding company, headquartered in Olney, Texas. Other sister banks include First National Bank of Borger, Citizens National Bank of Breckenridge, First State Bank of Canadian, N.A., First Coleman National Bank, Farmers National Bank of Seymour, Graham National Bank, First National Bank of Olney, Rose Rock Bank, and InterBank. All of these banks are located in the north central to western portions of Texas with the exception of Rose Rock and InterBank, which are located in Oklahoma. FSB is also affiliated, through common ownership, with First National Bank of Throckmorton, a wholly-owned subsidiary of Throckmorton Bancshares, Inc., a one-bank holding company, headquartered in Throckmorton, Texas.

Primary competition comes from several other financial institutions in the assessment areas as well as the surrounding counties. Other competition includes several non-bank institutions including Great Plains Ag Credit, Farmers Home Administration, GMAC Credit Corporation, Ford Motor Credit Corporation, John Deere Credit Corporation, Friona Federal Credit Union, IH Case, and the Federal Land Bank.

The most recent CRA examination was performed as of August 12, 2002. FSB received a satisfactory rating at that examination. The bank has no impediments, legal or otherwise, which would hinder its efforts to help meet the credit needs of its assessment areas. The bank continues to operate in a conservative manner with emphasis on providing sound credit to all members of the communities it serves, including the needs of low- and moderate-income individuals.

DESCRIPTION OF ASSESSMENT AREAS

FSB has defined its assessment areas as Parmer County and Oldham County. Friona lies within Parmer County and Vega lies within Oldham County. Because these counties are not contiguous, they are considered to be two separate assessment areas. Each assessment area is legal and meets the requirements of the regulation. Below is a description of each assessment area, which includes information on demographics, housing, and family data.

Parmer County -

Friona is the largest community within Parmer County. Approximately 10 thousand persons live within the county. The county is not in a Metropolitan Statistical Area (MSA). There are two census tracts (CT's) in the county, both of which are middle-income. The following table reflects selected demographic and economic characteristics of Parmer County.

Parmer County	
<i>Population</i>	
Number of Families	2,609
Number of Households	3,307
<i>Geographies</i>	
Number of Census Tracts	2
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2006 HUD-Adjusted MFI	\$43,100
<i>Economic Indicators</i>	
Unemployment Rate	2.16%
2006 Median Housing Value	\$48,872
% of Households Below Poverty Level	16.81%

Data Source: 2000 Census with selected updates through 2006

The primary credit needs in this assessment area continue to be related to the agriculture industry (cattle ranching, dairy, farmland, etc.) and related credit needs, including financing for other consumer loans. The economy of the area is not well-diversified and is dependent primarily on the agriculture industry.

Major employers in the assessment area include Cargill Meat Solutions (a beef packing plant), the school district, hospital/health care, and several cattle feeding businesses.

Oldham County -

Vega is the largest community within Oldham County. Approximately two thousand persons live within the county. The county is not in an MSA. There is one CT in the county, which is middle-income. The following table reflects selected demographic and economic characteristics of Oldham County.

Oldham County	
<i>Population</i>	
Number of Families	580
Number of Households	741
<i>Geographies</i>	
Number of Census Tracts	1
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2006 HUD-Adjusted MFI	\$43,100
<i>Economic Indicators</i>	
Unemployment Rate	3.34%
2006 Median Housing Value	\$48,300
% of Households Below Poverty Level	13.23%

Data Source: 2000 Census with selected updates through 2006

The primary credit needs in this assessment area are agricultural-related and general consumer loans. Current economic conditions in the assessment area are stable.

Major employers in the assessment area are Boys Ranch, Richardson Seed Company, city and county governments, and the local school district.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our conclusions in this section are based on the lending activity from the last CRA examination dated August 12, 2002. We used loan, borrower income, and assessment area data provided by the bank and tested it for accuracy. We selected samples from the agriculture, commercial and consumer portfolios in order to evaluate the bank's lending performance within the AA's (refer to **SCOPE OF THE EXAMINATION** for details). For the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**, we replaced loans originated outside of the AA's with loans originated inside of the AA's.

Loan-to-Deposit Ratio

FSB's loan-to-deposit (LTD) ratio exceeds the standards for satisfactory performance.

The LTD ratio measures the extent to which the subject bank has returned the deposits it has received to the community in the form of loans. The average of such ratios for each quarter-end since the last CRA examination is used to determine performance in this area. The average LTD ratio for FSB since the last CRA examination is 100.3%. Both assessment areas had a very limited number of banks to compare FSB with. Therefore we included the counties surrounding Parmer and Oldham Counties, which included 7 other state and national banks. The range of average LTD ratios for these banks was 12.7% to 86.2%. Based on this information, the bank's LTD ratio is very strong and exceeds the range of area competing banks.

Lending in Assessment Area

FSB's lending within the assessment areas meets the standards for satisfactory performance.

This criterion quantifies what proportion of the bank's lending activity is within its assessment areas. An institution that exhausts its resources lending in other areas, to the exclusion and detriment of its own assessment areas, would be considered less than satisfactory. However, FSB's lending efforts are concentrated within the assessment areas reviewed.

At this time, FSB does not track loans by location. To assess the bank's performance in this area we used the samples noted above. Based on our sample results, a majority of loans are within the bank's assessment areas. The following tables reflect the results of our assessment of the bank's efforts to lend in its assessment areas.

TOTAL LOANS REVIEWED - PARMER COUNTY ASSESSMENT AREA								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer Loans	17	85%	\$40	85%	3	15%	\$7	15%
Agriculture Loans	18	90%	\$567	91%	2	10%	\$53	9%
Commercial Loans	18	90%	\$1,457	98%	2	10%	\$23	2%
Total Reviewed	53	88%	\$2,064	96%	7	12%	\$83	4%

TOTAL LOANS REVIEWED - OLDHAM COUNTY ASSESSMENT AREA								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer Loans	17	85%	\$84	67%	3	15%	\$42	33%
Total Reviewed	17	85%	\$84	67%	3	15%	\$42	33%

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

FSB’s loan distribution, to the different family and household income levels as well as businesses of different sizes, meets the standards for satisfactory performance.

The bank obtains and analyzes applicant income information during the loan decision process. However, this information is not monitored or used to assess the efforts to meet the standards for CRA purposes. To assess the FSB’s efforts, we used the samples noted above. Our analysis, detailed in the tables below, indicates that the bank is reasonably lending to borrowers of all income levels and businesses of different sizes. Additionally, the bank does not have a minimum loan amount in policy. A review of small loans reflected that the bank has several loans with originating balances of \$1,000 or less currently on the books. (The lowest originating amount was \$95). We noted that there were several other loans with originating balances between \$1,000 and \$1,500. This indicates that the bank willingly extends credit to meet the needs of the consumer. Overall, we concluded that the bank’s performance is generally proportionate to the income levels of the households within the assessment area, and the credit needs of low- and moderate-income individuals are being met. Also, the bank meets the needs of the small businesses.

Parmer County -

Consumer Lending

Borrower Distribution of Consumer Loans in Parmer County								
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%	30%	17%	15%	21%	35%	40%	5%

Note: 15% of the number and 22% of the dollar amount of loans sampled did not have income information.

Commercial Lending

Borrower Distribution of Loans to Businesses in Parmer County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	39%	4%	57%	100%
% of Bank Loans in AA by #	55%	10%	35%	100%
% of Bank Loans in AA by \$	6%	93% (Note)	1%	100%

Note: Our original sample included 2 loans located outside the assessment area. We replaced these loans with randomly selected loans with large originating balances and revenues that just happen to exceed \$1 million. This is not a concern as 55% of the number of loans reviewed was to small businesses.

Agriculture Lending

Borrower Distribution of Loans to Businesses in Parmer County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	93%	4%	3%	100%
% of Bank Loans in AA by #	75%	0%	25%	100%
% of Bank Loans in AA by \$	92%	0%	8%	100%

Oldham County -

Consumer Lending

Borrower Distribution of Consumer Loans in Oldham County								
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	18%	30%	16%	25%	21%	30%	45%	10%

Note: 5% of the number and 2% of the dollar amount of loans sampled did not have income information.

Geographic Distribution of Loans

A geographic distribution analysis was not performed. There are no low- or moderate-income census tracts within the assessment areas.

Responses to Complaints

FSB has not received any complaints pertaining 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.