



SMALL BANK

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

PUBLIC DISCLOSURE

October 23, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of Mexia
Charter Number 12190**

**301 East Commerce
Mexia, TX 76667**

**Comptroller of the Currency
Dallas
500 North Akard, Suite 1600
Dallas, TX 75201**

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 First National Bank of Mexia (FNB) has a satisfactory record of meeting community credit needs. The primary factors supporting this rating include:

- A reasonable average net loans to deposit ratio of 56% compared to similarly situated financial institutions.
- Majority of loans sampled, representing 88% of the number, were originated within the assessment area (AA).
- Borrower distribution reflects a very good penetration of loans made to businesses with revenue less than \$1 million.
- Geographic distribution of loans reflects a reasonable dispersion throughout the AA.

DESCRIPTION OF INSTITUTION

FNB is a wholly owned subsidiary of Bi-Stone Bancshares, Inc., a single bank holding company, headquartered in Mexia, Texas. FNB has three branches. The hours of operation reflect the local banking environment. As of September 30, 2006, FNB's total assets are \$74 million, gross loans are \$44 million, and total deposits are \$66 million. FNB offers a full range of loan products and deposit services, with an emphasis on small business loans and residential loans. As reflected in the table below, major lending activities are as follows:

Loan Category	\$ (000)	%
Commercial Real Estate	13,632	35
Residential Real Estate	13,862	36
Commercial	6,974	18
Consumer	3,253	8
Agriculture	888	2
Other Loans	72	1
Total	38,681	100

FNB has no legal, financial or other factors impeding its ability to meet the credit needs of its AA. Loan and deposit products offered are commensurate with FNB's size and resources. There are several financial institutions that operate within the stated AA. They are comprised of other community banks and branches of larger national and state banks, as well as savings banks and credit unions. Officers and employees are highly involved in various community and civic activities throughout the trade area. Additionally, the bank has provided its boardroom to non-profit groups for meetings.

DESCRIPTION OF ASSESSMENT AREA

FNB's AA consists of 15 census tracts that are located in the Texas counties of Limestone and Freestone. The AA meets regulatory guidelines, and does not arbitrarily exclude low- or moderate-income areas. The following table reflects the demographics for the AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Census Year	2000
Population	
Number of Families	10,320
Number of Households	14,496
Geographies	
Number of Census Tracts	15
# - % Low-Income Census Tracts	0 – 0%
# - % Moderate-Income Census Tracts	1 – 7%
# - % Middle-Income Census Tracts	11 – 73%
# - % Upper-Income Census Tracts	3 – 20%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$38,519
2004 HUD-Adjusted MFI	\$42,000
2005 HUD-Adjusted MFI	\$42,000
Economic Indicators	
Unemployment Rate	2%
2005 Median Housing Value	\$50,268
% of Households Non English Speaking	7%
% of Households on Social Security	35%
% of Households Below Poverty Level	17%
% of Households on Retirement	19%

Area economic conditions are considered good and unemployment is at low levels. The major employment sectors within the AA are retail trade and service industries. Major area employers are the Mexia State School, Wal-Mart and TXU, Inc. (regional utility company). Management has identified small business loans and residential mortgages as the primary credit needs within the AA. To assess the credit needs of the community, we interviewed a person in the City of Mexia. The community contact indicated that area financial institutions are trying to meet the credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The evaluation of FNB covers the performance period from January 1, 2001 through September 30, 2006. We reviewed a sample of residential real estate and commercial real estate loans made to determine FNB's performance as it relates to community reinvestment. The tables in this evaluation reflect demographic data from the 2000 Census since that period included the majority of the data relevant to the analysis of FNB's adherence to CRA. One strength of FNB is its lending to businesses with revenues of less than \$1 million. Overall, FNB is meeting the standards for satisfactory performance.

Loan-to-Deposit Ratio

Given the size, financial condition, and credit needs of the AA, FNB meets the standards for satisfactory performance. FNB's 36-quarter average loan-to-deposit (LTD) ratio is 56%. We compared your LTD ratio to similarly situated insured commercial banks within the AA. The results of our assessment are detailed in the following table:

Institution	Assets ('000's) As of 09-30-06	Average LTD Ratio
Farmers State Bank of Groesbeck	102,141	48%
First National Bank, Groesbeck	43,426	76%
First National Bank, Fairfield	116,239	47%
<i>First National Bank of Mexia</i>	74,433	56%

Lending in Assessment Area

Based on our review of FNB's lending patterns, FNB meets the standards of satisfactory performance. Our assessment revealed 88% of the number of loans originated was extended to individuals and businesses within the AA. Residential real estate loans represented 94% of the dollar amount of loans outstanding within the AA, and commercial real estate loans represented 65% of the dollar amount of loans outstanding within the AA.

Total Loans Reviewed										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	19	95	1	5	20	1,584	94	96	6	1,680
Commercial Real Estate	16	80	4	20	20	1,471	65	782	35	2,253
Totals	35	88	5	12	40	3,055	78	878	22	3,933

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

FNB meets the standards for satisfactory performance in lending to borrowers of different incomes and to businesses of different sizes as portrayed in the tables below.

In addition, lending to businesses of different sizes is more than adequate. The 2000 Census Data indicates that there are a total of 2,769 businesses in the assessment area. Businesses with revenue of less than \$1 million represent 59% of all businesses. As reflected below, 100% of the loans in our sample have been to businesses with revenues of less than \$1 million.

Lending to Borrowers of Different Income Levels								
Income Level Category	#	%	\$(000s)		%			
Low								
Moderate	3	15%	99		6%			
Middle	4	20%	133		8%			
Upper	13	65%	1,449		86%			
Total	20	100%	1,681		100%			
Lending to Businesses of Different Sizes								
Revenue Ranges	\$1 Million or less				Greater than \$1 million			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Total	20	100%	2,253	100%	0	0%	0	0%

Geographic Distribution of Loans

Based on the 2000 Census Data, FNB's AA contains one moderate-income tract, 11 middle-income and 4 upper income tracts in Limestone and Freestone counties. FNB's lending patterns reflects overall satisfactory penetration within its AA.

Geographic Distribution of Loans by Census Tract								
Assessment Area Data	# Low-Income		# Mod-Income		# Middle-Income		# Upper-Income	
Census Tract Designation	0	0%	1	7%	11	73%	3	20%
Loan Type	#	%	#	%	#	%	#	%
Residential Real Estate	0	0%	0	0%	14	35%	5	35%
Commercial Real Estate	0	0%	2	25%	10	25%	4	60%
Grand Total	0	0%	2	6%	24	68%	9	26%

Responses to Complaints

FNB has received no complaints during the evaluation period related to CRA issues or performance.

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.