



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 3, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Byers
Charter Number 8787

505 Main Street
Byers, TX 76357

Office of the Comptroller of the Currency
Dallas Field Office
17300 Dallas Parkway, Suite 2020
Dallas, TX 75248-1145

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 major factors supporting the rating of First National Bank of Byers (Byers) include:

- The distribution of consumer and agriculture loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes in the assessment area (AA).
- The geographic distribution of consumer and agriculture loans reflects a reasonable dispersion throughout census tracts of different income levels in the AA, including low- and moderate-income census tracts.
- A substantial majority of the primary loan products originated by Byers during the evaluation period were to borrowers within the AA.
- A reasonable average loan-to-deposit (LTD) ratio of 64% meets the standards for satisfactory performance given the bank's size, financial condition, and the AA's credit needs.

SCOPE OF EXAMINATION

We performed a small bank Community Reinvestment Act (CRA) examination for the evaluation period of January 13, 2004 to August 3, 2009. Byers has not significantly altered its lending strategy or product offerings since the prior CRA examination. To complete the analysis of data for this evaluation, we reviewed loans originated between January 1, 2007 and August 3, 2009. Through conversations with bank management and a review of loan balances outstanding, we identified the primary loan products as consumer, agriculture (farm), and residential home purchase loans.

To evaluate Byers' lending to borrowers within its AA, we reviewed Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) data for home purchase loans. From the LAR we accumulated data from 86 residential applications. We also did a random sample of 20 consumer loans and 20 agriculture loans. To evaluate Byers' lending to borrowers of different income levels, businesses of different sizes, and lending to different geographies, we only included loans originated inside the AA. To achieve a valid analysis, we expanded the sample to find loans that were originated inside the bank's AA.

We evaluated Byers' average loan-to-deposit (LTD) ratio over the previous 21 quarters, comparing it to similarly situated banks within and in close proximity to the AA. Additionally, we reviewed the CRA public file to gather any related complaints received by Byers and evaluated how the bank handled those complaints during the evaluation period.

DESCRIPTION OF INSTITUTION

Byers is an \$83 million community bank located in Byers, Texas. Byers is a wholly owned subsidiary of Byers Bancshares, Inc., a one bank Texas Corporation. Byers serves Clay County and the City of Wichita Falls through three full-service banking locations: (1) the main office is located at 505 Main Street in Byers, Texas, (2) the Cattleman's branch at 900 Midwestern Parkway, Wichita Falls, Texas, and (3) its newest branch, which opened May 2008, located at 202 West Wichita, Henrietta, Texas.

All locations have drive-up facilities, with extended weekday hours at the Cattleman's location. Byers operates three automated teller machines (ATM), one at each location. Byers offers balance transfers and bill-pay through the internet at www.fnbyers.net. A contractors' system provides the secured link to bank accounts.

Byers offers traditional deposit and loan products. Although the primary loan product remains agriculture, they have not ignored the need for consumer and residential lending. Byers does not have many applications for mortgage loans due to the number of larger financial institutions in Wichita Falls and the surrounding areas and there is not much demand in the town of Byers. As of June 30, 2009, Byers had a "net loans to total assets" ratio of 58%. The following table portrays the principal loan mix of Byers as of June 30, 2009:

TYPES OF DOMESTIC LOANS OUTSTANDING		
JUNE 30, 2009		
<i>(\$000's)</i>		
<i>TYPE OF LOANS</i>	<i>AMOUNT</i>	<i>PERCENTAGE</i>
Agriculture (including real estate)	\$13,185	27%
Consumer (not secured by real estate)	\$9,298	19%
Residential Real Estate (including multi-family)	\$8,647	18%
Commercial	\$7,172	15%
Commercial Real Estate	\$6,666	14%
Other (excluding consumer loans)	\$3,589	7%
TOTAL	\$48,557	100%

Source: The June 30, 2009 Federal Financial Institutions Examination Council's (FFIEC) Consolidated Reports of Condition and Income (Call Report).

Byers was rated "Satisfactory" in its previous Community Reinvestment Act public evaluation dated January 12, 2004. The bank has no financial or legal obstacles that affect its ability to meet community credit needs.

DESCRIPTION OF CLAY COUNTY AND THE CITY OF WICHITA FALLS, TEXAS

Byers' AA is Clay County and the City of Wichita Falls, Texas (Clay County/Wichita Falls). The AA meets the requirements of the regulatory guidelines and does not arbitrarily exclude low-or moderate-income areas or reflect illegal discrimination.

Using 2000 Census information, Clay County consists of three middle-income census tracts and the City of Wichita Falls includes 31 census tracts of varying income levels: one low-income, 12 moderate-income, 11 middle-income, and seven upper-income. The following table reflects the demographic and economic characteristics of the AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF CLAY COUNTY/WICHITA FALLS	
<i>POPULATION – YEAR 2008</i>	
Number of Families	29,630
Number of Households	43,784
<i>GEOGRAPHIES</i>	
Number of Census Tracts (CTs)	34
# / % Low-Income CTs	1 / 2.9%
# / % Moderate-Income CTs	12 / 35.3%
# / % Middle-Income CTs	14 / 41.2%
# / % Upper-Income CTs	7 / 20.6%
<i>MEDIAN FAMILY INCOME (MFI)</i>	
2000 MFI for AA	\$40,832
2007 HUD-Adjusted MFI	49,200
2008 HUD-Adjusted MFI	50,300
2009 HUD-Adjusted MFI	52,800
<i>ECONOMIC INDICATORS</i>	
Unemployment Rate	2.64%
2008 Median Housing Value	\$66,477
% of Households Below Poverty Level	13.6%
% of Households on Social Security	26.8%
% of Households on Retirement	17.1%

Source: 2000 U.S. Census

Ninety percent of the housing units in the AA are occupied, with 55% owner-occupied, 35% rental-occupied, and 10% vacant.

The local economy of the City of Wichita Falls is considered to be relatively stable, despite the overall national economic decline. The largest employers in the City of Wichita Falls are Sheppard Air Force Base, Midwestern State University, United Regional Health Care, and the Independent School District. The largest industry is manufacturing. The local economy of Clay County is also stable with large employers including the Independent

School District and the county government. The largest industry is agriculture, specifically crops and cattle.

We determined the credit needs of the community through discussions with management and local community contacts associated with Clay County and the City of Wichita Falls. Management stated the community credit needs for the City of Wichita Falls is primarily consumer and small business loans (including agriculture) and primarily agriculture loans in Clay County.

We contacted two members of the local community during this evaluation period, both representing local non-profit organizations. One was from the City of Wichita Falls and the other was familiar with Clay County. Both community contacts indicated Byers is very cooperative and diligent in attempting to meet the community's credit needs and verified consumer and small business loans (including agriculture) as the community's primary credit needs. One contact in particular indicated Byers consistently sponsors local fundraising events which directly support rehabilitation out-patient care. The other commented that Byers consistently donates monies to the five local schools in the Clay County ISD every year.

The financial markets are very competitive in Wichita Falls, TX. There are several community banks, savings and loans, and credit unions headquartered here and branches of many regional and multi-national banks. There are no other banks in Byers, TX.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Byers meets the standards of satisfactory performance. Byers demonstrated satisfactory performance regarding its average LTD ratio and excellent performance in lending in the AA. Lending to borrowers of different incomes, businesses of different sizes, and the geographic distribution of loans were the biggest factors contributing to the overall rating. Small business lending (agricultural) and consumer lending were identified as Byers' primary loan products.

Loan-to-Deposit Ratio

Byers' quarterly average LTD ratio is reasonable and meets the standards for satisfactory performance given the size, financial condition, and the AA's credit needs. The LTD ratio averaged 64% over the 21 quarters since the prior CRA examination, with a quarterly low of 50% and a quarterly high of 74%. The LTD ratio compares favorably with other community banks of similar size, location, and product offerings. Byers ranks third among five similarly situated banks serving its AA. The other four banks had an average LTD ratio of 65%, ranging from 33% to 88% over the 21 quarters since the prior CRA examination.

Management stated that a few years ago two departing loan officers took many of their respective loan relationships away from the bank. Management offered this and the overall national decline in loan demand as reasoning for the decline in its LTD ratio during the second half of the evaluation period as compared to a higher LTD ratio during the first half. The table below organizes the average LTD ratios for Byers and similarly situated banks serving its AA:

Financial Institution	Total Assets As of 03/31/09 (000's)	Average LTD Ratio
First National Bank of Quanah	\$ 51,378	48%
State National Bank of Texas	189,190	53
First National Bank of Byers	86,892	64
Fidelity Bank	184,123	77
The Waggoner National Bank of Vernon	227,162	80

Source: The Federal Financial Institutions Examination Council's (FFIEC) Consolidated Reports of Condition and Income (Call Report). Data gathered from March 31, 2004 to March 31, 2009.

Lending in Assessment Area

Byers' lending to borrowers within its AA exceeds the standards for satisfactory performance. A substantial majority of the primary loan products originated during the evaluation period are to borrowers within its AA.

Our sample included 20 agriculture loans, 20 consumer loans, and 86 home purchase loans originated from January 1, 2007 to August 3, 2009. Of the loans reviewed, 91% were within Byers' AA, totaling \$4,411 thousand or 85% of the total dollars originated during the evaluation period.

The following table details the bank's lending within the AA by number and dollar amount of loans originated during the evaluation period.

LENDING IN CLAY COUNTY/WICHITA FALLS										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$ (000)
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Agriculture	19	95	1	5	20	438	86	70	14	508
Consumer	18	90	2	10	20	142	93	12	7	154
Home Purchase	78	91	8	9	86	3,831	84	726	16	4,557
Totals	115	91	11	9	126	4,411	85	808	15	5,219

Source: Loan sample data and data reported under HMDA.

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

Byers meets the standard for satisfactory performance in lending to borrowers of different incomes and businesses of different sizes. The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes, given the bank’s product offerings and local economic conditions.

We placed emphasis on Byers’ consumer and agriculture lending performance as these are the bank’s primary lending products and represent a combined 46% of the total loans outstanding as of June 30, 2009. Residential real estate loans represent 18% of total loans outstanding and were also included in our evaluation.

Byers’ agriculture lending to businesses reflects an excellent penetration among businesses of different sizes. However, our conclusion could be somewhat inaccurate as financial information for all agricultural borrowers in our sample was not available. We relied upon managements’ knowledge of the borrower and loan size to reach the classification of income.

Agriculture Loans

The distribution of agriculture loans to businesses reflects an excellent penetration among businesses of different sizes, with 95% made to small businesses. Management indicated agricultural loans of \$100 thousand or less generally represent loans to small businesses in its AA.

The table below organizes the bank’s agricultural lending performance to businesses of different sizes:

BORROWER DISTRIBUTION OF LOANS TO FARMS BY LOAN SIZE IN CLAY COUNTY/WICHITA FALLS				
Loan Size (000’s)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	19	95%	\$338,030	74%
\$100,001 - \$250,000	1	5%	\$120,000	26%
\$250,001 - \$500,000	0	0%	\$0	0%
Over \$500,000	0	0%	\$0	0%

Source: Loan sample data.

Consumer Loans

The distribution of consumer loans to borrowers reflects excellent penetration among borrowers of different income levels. Loans to low- and moderate-income borrowers exceed the ratio of low- and moderate-income households in Byers’ AA.

The following table organizes the bank’s consumer lending performance to borrower of different incomes:

BORROWER DISTRIBUTION OF CONSUMER LOANS IN CLAY COUNTY/WICHITA FALLS								
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	22.1	30.0	17.1	30.0	20.7	15.0	40.1	25.0

Source: Data collected by bank and U.S. Census data.

Home Purchase Loans

The distribution of home purchase loans to borrowers reflects a reasonable penetration among borrowers of different income levels.

Performance in helping meet the overall home purchase loan needs of moderate-income borrowers exceeds demographics. Lending to low-income borrowers was below demographics, but represents satisfactory performance. Byers' lending performance to low-income borrowers is somewhat impacted by the 14% poverty level in the AA.

The table below organizes the bank's home purchase lending performance to borrower of different incomes:

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN CLAY COUNTY/WICHITA FALLS								
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	18.9	10.4	19.7	25.9	23.8	32.5	37.6	31.2

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

Geographic Distribution of Loans

Byers meets the standard for satisfactory performance in its geographic distribution of loans, reflecting a reasonable dispersion throughout the AA. We did not identify any conspicuous gaps in lending to borrowers residing in the AA.

As with the lending to borrowers of different incomes and businesses of different sizes portion of our evaluation, we placed more emphasis on Byers' consumer and agriculture lending performance as these loan products represent the bank's primary lending focus.

Consumer Loans

Byers' geographic distribution of consumer loans reflects a reasonable dispersion throughout most census tracts of different income levels. The sample did not show any consumer lending in the low-income tract. However, only 2.3% of AA households reside in the low-income census tract. Conversely, consumer lending in moderate-income census tracts significantly exceeded the percentage of moderate-income households in the AA.

The table below organizes the bank's geographic distribution of its consumer lending dispersion throughout census tracts of different income levels:

GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN CLAY COUNTY/WICHITA FALLS								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	2.3	0	24.6	40.0	44.5	45.0	28.6	15.0

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

Agriculture Loans

The geographic distribution of agriculture (farm) loans reflects a reasonable dispersion in census tracts of different income levels, including low- and moderate-income census tracts. To reach this conclusion, consideration is given to the location of the agriculture industry.

Most of the agriculture industry is in Clay County, which is composed of all middle-income census tracts. There is some agriculture on the outskirts of Wichita Falls, which are primarily middle- and upper-income census tracts. The Clay County community contact verified that agriculture lending is the primary credit need in Clay County.

Agriculture lending performance in the low- and moderate-income census tracts fell slightly below the percentage of farms located in those census tracts. The majority of loans in the sample (70%) were made in middle-income census tracts, which is consistent with demographics.

The following table organizes the bank's geographic distribution of its agriculture lending dispersion throughout census tracts of different income levels:

GEOGRAPHIC DISTRIBUTION OF LOANS TO FARMS IN CLAY COUNTY/WICHITA FALLS								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Agriculture	2.2	0	22.3	20.0	53.9	70.0	21.6	10.0

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

Home Purchase Loans

Byers’ geographic distribution of home purchase loans reflects a reasonable dispersion throughout census tracts of different income levels, including low- and moderate-income census tracts.

The percentage of home purchase loans made to borrowers in moderate-income census tracts is lower than the percentage of owner-occupied housing units in those census tracts. High poverty levels and a high level of competition impact lower lending in these tracts.

The table below organizes the bank’s geographic distribution of its home purchase lending dispersion throughout census tracts of different income levels:

GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN CLAY COUNTY/WICHITA FALLS								
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	2.0	2.6	19.2	11.7	49.5	79.2	29.3	6.5

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

Responses to Complaints

We reviewed Byers’ public file as well as consulted with the OCC’s Customer Assistance Group (CAG) to identify complaints the bank received, if any, and their response to those complaints during the evaluation period. Byers did not receive any complaints related 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.