



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**November 05, 2007**

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

Farmers National Bank of Newcastle  
Charter Number 14154

722 Broadway  
Newcastle, TX 76372-0000

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 Farmers National Bank 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 52% since the previous CRA examination meets 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 activities is within the assessment area. Based on the loans reviewed in our sample, 78% of the number and 58% of the dollar amount were originated within the Young County assessment area.
- The distribution of loans among individuals of different income levels and businesses of different sizes exceeds the standards. A significant portion of our consumer sample was to low and moderate income households. Also, the bank makes a significant volume of small dollar loans.

## **SCOPE OF EXAMINATION**

The evaluation period for our assessment of Farmers National Bank of Newcastle (Farmers) CRA efforts was October 1, 2006 to September 29, 2007. Loan products evaluated include consumer loans, loans to businesses and loans to farms. We performed a full-scope review of Farmers single assessment area – Young County, Texas, which was the basis of our overall rating of Farmers' CRA efforts.

## DESCRIPTION OF FARMERS NATIONAL BANK OF NEWCASTLE

Farmers is a small community bank located in Newcastle, Texas (with an estimated population of 575). The bank is owned by a small group of individuals, centered in the directorate. Newcastle is a rural community located in Young County, which is approximately 15 miles northwest of Graham, Texas and 95 miles northwest of Fort Worth, Texas. The bank operates from only one location in downtown Newcastle. Farmers does not own or operate an Automated Teller Machine.

Farmers is a full-service community bank offering typical loan and deposit products. At September 30, 2007 Farmers had total assets of \$20 million, total loans of \$10.7 million, and deposits of \$17.2 million. The principal lending focus is in agriculture and consumer lending. The following table reflects the loan concentrations at September 30, 2007.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Consumer Loans	\$2,241	21%
Agricultural Loans	\$2,111	20%
Commercial Loans	\$2,102	20%
Real Estate Loans - Commercial	\$1,891	18%
Real Estate Loans - Residential	\$1,601	15%
Real Estate Loans - Farmland	\$747	6%
Other	\$18	<1%
<b>Total</b>	\$10,711	100.0%
Percentage of Loans to Total Assets: 54%		

Farmers' primary strategy is to meet the financial needs of individuals and businesses in the assessment area and to build and maintain relationships with its customers. At September 30, 2007, Farmers reported Tier 1 Capital of \$2.5 million (12.78% leverage ratio), and a return-on-assets ratio (ROA) of 1.54%. Based on Farmers' condition, size, and product offerings, it has no legal, financial, or other factors impeding its ability to help meet credit needs in the AA.

Farmers received an overall rating of "Satisfactory" during the previous CRA examination conducted in June 2003. Our review of the OCC records and Farmers' CRA Public File did not reveal any complaints relating to Farmers' CRA performance since the last CRA examination.

## DESCRIPTION OF YOUNG COUNTY

Farmers has defined its assessment area as Young County. The assessment area delineation meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income areas. Below is a description of Young County, which includes information on demographics, housing, and family data.

Approximately 17,943 persons live within the county. The county is not in a Metropolitan Statistical Area (MSA). There are 4 census tracts (CT's) in the county, all of which are middle-income. The following table reflects selected demographic and economic characteristics of Young County.

<b>Young County</b>	
<i>Population</i>	
Number of Families	5,118
Number of Households	7,161
<i>Geographies</i>	
Number of Census Tracts	4
% 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	2.39%
2006 Median Housing Value	\$48,196
% of Households Below Poverty Level	15.32%

Data Source: 2000 Census with selected updates through 2006

The primary credit needs in the assessment area are business loans (commercial and agriculture) and general consumer loans. The economy of the area is not well diversified and is dependent primarily on the agriculture and oil and gas industries.

Newcastle actually serves as a bedroom community to Graham (15 miles to the southeast) and Olney (13 miles to the north). The largest employers in Newcastle are the school system and convenience stores.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our conclusions are based on the bank’s lending activity since the last CRA examination, dated June 16, 2003. As noted above, Farmers continues to make consumer and commercial loans. Our assessment is based on a review of samples of 20 consumer loans, 20 commercial loans, and 20 agriculture loans. Our overall analysis indicates the bank is meeting the standards set out by the CRA.

### Loan-to-Deposit Ratio

Farmers’ loan-to-deposit (LTD) ratio meets 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 Farmers since the last CRA examination is 52%. The assessment area has a limited number of competitors, however the surrounding counties contain a number of competing financial institutions. In this area, there are 14 other financial institutions with average loan-to-deposit ratios ranging from 22% to 100%. Based on this information, Farmers’ LTD ratio is reasonable and within the range of area competing banks.

### Lending in Assessment Area

Farmers’ lending within the assessment area meets the standards for satisfactory performance.

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

At this time, Farmers 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 area. The majority dollar amount of agriculture loans is outside the assessment area. This amount was skewed by 2 large loans made outside the assessment area. The following table reflects the results of Farmers’ efforts to lend in its assessment area.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer Loans	16	80%	\$45	82%	4	20%	\$10	18%
Commercial Loans	15	75%	\$307	69%	5	25%	\$141	31%
Agriculture Loans	16	80%	\$308	49%	4	20%	\$324	51%
<b>Total Reviewed</b>	<b>47</b>	<b>78%</b>	<b>\$660</b>	<b>58%</b>	<b>13</b>	<b>22%</b>	<b>\$475</b>	<b>42%</b>

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

The bank’s loan distribution, to the different household income levels as well as businesses and farms of different sizes, exceeds the standards for satisfactory performance.

Farmers obtains and analyzes applicant income information during the loan decision process. This information is not monitored or used to assess the efforts to meet the standards for CRA purposes. To assess the bank’s efforts, we used the samples noted above. Our analysis, detailed in the tables below, indicates that the bank is exceeding the standards in lending to borrowers of all income levels and reasonably lending to businesses and farms of different sizes. The consumer sample indicated significant penetration in the low and moderate income households. Additionally, the bank does not have a minimum loan amount in policy. A review of small loans reflected 11% of the loans currently on the books have originating balances of \$1,000 or less (the lowest originating amount was \$100). Loans with originating balances between \$1,000 and \$1,500 represent another 11%. This indicates the bank is more than willing and able to meet the needs of the consumer. Our commercial and agriculture samples reflect a high volume of loans to meet the credit needs of small businesses and small farms.

*Consumer Lending*

<b>Borrower Distribution of Consumer Auto Loans in Young County</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>
<b>Consumer Loans</b>	<b>23%</b>	<b>40%</b>	<b>8%</b>	<b>15%</b>	<b>18%</b>	<b>10%</b>	<b>41%</b>	<b>10%</b>

*Note: The level of income for 25% of the number of loans was not known.*

*Commercial Lending*

<b>Borrower Distribution of Loans to Businesses in Young County</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/Unknown</b>	<b>Total</b>
<b>% of AA Businesses</b>	<b>64%</b>	<b>3%</b>	<b>33%</b>	<b>100%</b>
<b>% of Bank Loans in AA by #</b>	<b>80%</b>	<b>10%</b>	<b>10%</b>	<b>100%</b>
<b>% of Bank Loans in AA by \$</b>	<b>75%</b>	<b>21%</b>	<b>4%</b>	<b>100%</b>

*Agriculture Lending*

<b>Borrower Distribution of Loans to Businesses in Young County</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
<b>% of AA Businesses</b>	<b>96%</b>	<b>2%</b>	<b>2%</b>	<b>100%</b>
<b>% of Bank Loans in AA by #</b>	<b>80%</b>	<b>0%</b>	<b>20%</b>	<b>100%</b>
<b>% of Bank Loans in AA by \$</b>	<b>92%</b>	<b>0%</b>	<b>8%</b>	<b>100%</b>

**Geographic Distribution of Loans**

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

**Responses to Complaints**

Farmers 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..