



**SMALL BANK**

---

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

---

## **PUBLIC DISCLOSURE**

**August 14, 2006**

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

**The First National Bank of Seymour  
Charter Number 4263**

**201 North Washington Street  
Seymour, TX 76380**

**Comptroller of the Currency  
Fort Worth  
9003 Airport Freeway Suite 275  
North Richland Hills, 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.**

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the CRA performance of the First National Bank of Seymour, Seymour, Texas as prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of August 14, 2006. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

First National Bank of Seymour's lending performance 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 21.5% is reasonable given the bank's size, financial condition, local competition, and assessment area credit needs.
- A majority of the bank's loan activity is within the bank's assessment area.
- The distribution of loans demonstrates reasonable penetration among individuals of different income levels and businesses of different sizes.
- There have been no CRA related complaints filed against the bank.

## DESCRIPTION OF INSTITUTION

The First National Bank of Seymour (FNB) is a community bank located in Seymour, Texas, located approximately 50 miles southwest of Wichita Falls, Texas. The bank operates from the main facility in downtown Seymour and a branch in Matador, Texas. The Matador facility is located approximately 80 miles northeast of Lubbock, Texas. The bank offers no on- or off-site Automated Teller Machines (ATM's). FNB is a subsidiary of Baylor Bancshares, Inc. (Baylor), which is a multi-bank holding company. Other banks in the holding company include Memphis State Bank, First National Bank of Whitney, and Citizens State Bank of Princeton. All of these banks are small community banks located in the state of Texas. The holding company also owns 100% of Baylor Mortgage Company, Inc., an operating subsidiary. The only change in corporate structure of the bank is the branch, which was operated as First State Bank of Matador, Texas until July 2005, when it was folded into FNB. The corporate structure of the holding company has not changed since the prior CRA examination.

FNB is a full-service community bank offering a wide variety of loan and deposit products. The bank also has an in-house trust department. As of June 30, 2006, FNB has total assets of \$39 million, loans of \$7.2 million, and deposits of \$34.5 million. The following tables present the bank's loan and deposit information as of June 30, 2006.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial	\$2,880	40.2%
Agricultural Production/Other Agricultural	\$2,565	35.8%
Consumer Loans	\$849	11.8
Commercial Real Estate	\$390	5.4%
Other Loans	\$380	5.3%
Farmland Real Estate	\$103	1.4%
Residential Real Estate	\$8	0.1%
<b>Total</b>	<b>\$7,175</b>	<b>100.0%</b>

The bank has a conservative credit underwriting policy. A large portion of the bank's customer base is comprised of elderly members of the community who have their life savings on deposit with the bank. They view the bank as a safe place to have these deposits because of the well-known conservative lending standards and perceived low level of risk in the bank.

Primary competition comes from two other financial institutions located in Seymour; a single facility national bank and a branch of a national bank. Secondary competition is offered by several non-bank institutions including Production Credit Association, Farmers Home Administration, GMAC Credit Corporation, Ford Motor Credit Corporation, John Deere Credit Corporation, and the Federal Land Bank. Remote competition is posed by financial institutions in nearby Vernon, Texas and Wichita Falls, Texas.

The most recent CRA examination was performed as of April 22, 2002. The bank received a satisfactory rating at that examination. There are no legal or financial impediments to the bank's ability to meet the credit needs of its assessment area.

## DESCRIPTION OF THE ASSESSMENT AREAS (AAs)

FNB has defined its AAs as Baylor county and Motley county. The AAs are legal and meets the requirements of the regulation. Approximately 5,519 persons live within the AAs. Neither county is in a Metropolitan Statistical Area (MSA). Seymour is the largest community in Baylor County and Matador is the largest community in Motley County. There are a total of three Block Numbering Areas (BNA's), all of which are middle-income BNA's. There are no low- or moderate-income BNA's in the AAs.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF BAYLOR AND MOTLEY COUNTIES		
	Baylor County	Motley County
Population		
Number of Families	1,177	423
Number of Households	1,789	593
Geographies		
Number of Block Numbering Areas (BNA's)	2	1
% Low-Income BNA's	0.00%	0.00%
% Moderate-Income BNA's	0.00%	0.00%
% Middle-Income BNA's	100.00%	100.00%
% Upper-Income BNA's	0.00%	0.00%
<b>Median Family Income (MFI)</b>		
2000 MFI for Baylor County	\$34,583	\$33,977
2006 HUD-Adjusted MFI	\$43,100	\$43,100
Economic Indicators		
Unemployment Rate	1.95%	0.98%
Weighted avg. Median Housing Value	\$38,517	\$31,700
% of Households Below Poverty Level	16.12%	19.44%

The primary credit needs of the counties continue to stem from the agriculture industry (cattle ranching, farmland, etc.) and financing for home purchase or home improvement, automobile, and other consumer loans. The economy of the area is not well diversified and is dependent primarily on the agriculture and oil and gas industries. These industries have been depressed for the past several years, and the area remains in one of the worst droughts on record. However, both oil and cattle prices have rebounded over the past couple of years. Unemployment levels are low. Major employers in the counties are financial institutions, school districts, hospitals, and city and county governments.

We considered information from three community leaders that were interviewed during this examination. According to these contacts, all banks in Baylor County have a positive image, are involved in the community, and are supportive of local business initiatives.



## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Our conclusions are based on the bank's lending activity since the last CRA examination, dated April 22, 2002. The main facility (Baylor County) extends the vast majority of credit at 81.25%. Our work and assessment is based on the lending activity of this facility. The bank continues to make consumer, real estate, and small business loans to individuals of various income levels. Our assessment is based on sampling the consumer and business portfolios.

### **Loan-to-Deposit Ratio**

FNB's 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 FNB since the last CRA examination is 21.5%. Area lenders average LTD ratios range from < 10% to 93% over the same time period. The bank's heavy volume of low dollar loans, conservative lending philosophy, and significant local competition contribute to the low LTD ratio. The bank differentiates itself from the community's largest lender, Farmer's National Bank, whose lending focus is on larger agriculture loans.

Additionally, the bank has no minimum loan amount and has extended a significant volume of low dollar and personal loans. Generally, these loans are typical of individuals with lower income levels who cannot qualify for other credit facilities such as credit cards. The low dollar lending activity, concentration of lending within the AA and contact with community leaders confirms that the bank is satisfactorily serving the community's credit needs.

### **Lending in Assessment Area**

The bank's 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, FNB's lending efforts are concentrated within its assessment area.

At this time, FNB does not track loans by location. To assess the bank's performance in this area we were required to sample a portion of the loan portfolio. We used the sample noted above to assess the bank's performance for this criterion. Based on our sample results, a majority of loans are within the bank's assessment area. The following table reflects the results of our assessment of the bank's efforts to lend in its assessment area.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer Loans	19	95%	219	97.3%	1	5%	6	2.7%
Business Loans	16	80%	3,352	74.6%	4	20%	1,139	25.4%
Total Reviewed	35	87.5%	3,571	75.7%	5	12.5%	1,145	24.3%

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

The bank'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 this criterion. To assess the bank's efforts, we used the sample of loans noted above. Our analysis, noted in the tables below, indicates the bank is reasonably lending to borrowers of all income levels and businesses of different sizes. Additionally, the bank has no minimum loan amount in policy. A review of small loans reflected the bank has 88 loans with originating balances of \$1,000 or less, currently on the books. This indicates 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, bank meets the needs of the small businesses.

### Consumer Lending

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	31%		18%		18%		33%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	20%	7%	10%	17%	40%	36%	10%	9%

Financial information was not available on 20% of the number and 31% of the dollar of our sample.

### Business Lending

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *Forty percent of assessment area businesses did not report revenue figures	57%	3%
% of Bank Loans in AA #	65%	20%
% of Bank Loans in AA \$	20%	75%

Financial information was not available on 15% of the number and 5% of the dollar of our sample.

The table indicates the majority of the dollar amount of our sample is centered in larger businesses. However, there was a \$2.5 million loan in our sample that skewed the totals. Absent this one loan the majority of the dollar amount would have been centered in small businesses.

### **Geographic Distribution of Loans**

A geographic distribution analysis of loans was not performed. There are no low- or moderate-income BNA's within the bank's AAs.

### **Responses to Complaints**

FNB has not received any complaints during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

An analysis of public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on our analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with this CRA evaluation.