

PUBLIC DISCLOSURE

February 19, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First State Bank
Certificate Number: 10356**

**142 North Ohio Drive
Post Office Box 128
Celina, Texas 75009-0128**

Federal Deposit Insurance Corporation

**Division of Compliance and Consumer Affairs
1910 Pacific Avenue, 20th Floor
Dallas, Texas 75201**

NOTE: 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.

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GENERAL INFORMATION

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 Community Reinvestment Act (CRA) performance of **The First State Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **February 19, 2002**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.

INSTITUTION RATING

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

The bank also received a Satisfactory rating at its previous October 16, 1997, CRA evaluation.

Small bank performance factors were applied to this three-office, \$65 million bank headquartered in Celina, Texas, a largely rural community in northern Collin County. These factors are: lending to borrowers of different incomes, loan-to-deposit ratio, lending in the assessment area, geographic distribution of lending, and response to complaints. When arriving at the overall rating, less weight was placed upon the bank's record of geographic distribution of loans due to the absence of low- and moderate-income geographies in the assessment area. Also, since no CRA-related complaints were received since the last evaluation, this performance factor carried no weight. Bank management did not request a review of investments and services for consideration of an outstanding rating.

This evaluation is based upon a review of originations of the bank's two primary loan products, home mortgage loans and consumer loans, within the delineated assessment area. Both of these loan products received equal weight in arriving at the assigned rating. Each of the reviewed factors supports the assigned rating. Individual conclusions are summarized below. The bank's performance under each test is detailed elsewhere in this evaluation.

- Relative to the products reviewed and the demographics of the area, the bank has extended loans to borrowers of all income levels.
- The bank's average loan-to-deposit ratio of 58.31 percent demonstrates a satisfactory performance within the context of the bank's resources and the assessment area's needs.
- Given the size of the assessment area, the 86.2 percent and 87.5 percent by number and dollar amount of loans originated inside the assessment area reflects acceptable performance.
- Relative to the loan products reviewed, the bank reasonably distributed loans throughout its assessment area geographies.

DESCRIPTION OF INSTITUTION

The First State Bank is located in the city of Celina in Collin County, Texas. Celina is approximately 35 miles north of Dallas and 30 miles southwest of Sherman. Of the two full service branches, one is located in Little Elm in Denton County, and the other is located in Collinsville in Grayson County. The bank also operates a remote drive-thru facility in Celina. According to the June 30, 2001, FDIC Summary of Deposits, the Celina office accounts for 57 percent of total deposits, and the Little Elm and Collinsville branches have 25 percent and 18 percent of deposits, respectively. The Collinsville branch is less than two years old, having opened in May 2000.

The bank offers a variety of loan and deposit products. Lobby banking hours are reasonable, with extended hours on Friday. The drive-in is open until 6:00 p.m. and the bank offers Saturday hours, as well. Twenty-four hour banking is offered by means of three automated teller machines (ATM), two in Celina and one in Little Elm. Telephone banking is offered and on-line banking and is available via the bank's web site.

As of the September 30, 2001, Reports of Condition and Income, the bank reported \$65.5 million in total assets, 67 percent of which are loans. *Table 1* illustrates the components of the loan portfolio by dollar amount and as a percentage of total loans.

Table 1 - Loan Distribution as of September 30, 2001		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	9,602	21.93
Secured by Farmland	1,949	4.45
1-4 Family Residential	11,913	27.21
Multi-Family (5 or more) Residential	0	0
Commercial	5,866	13.40
Total Real Estate Loans	29,330	66.98
Commercial and Industrial	2,914	6.65
Agricultural	2,397	5.47
Consumer	8,731	19.94
Other	596	1.36
Less Loan Loss Allowance & Unearned Income	(179)	
Total Loans	43,789	100

Source: September 30, 2001, Report of Condition

The bank's assets have increased by approximately 82 percent since the last examination, most of which is reflected in loan growth. Single-family residential lending continues to be the primary product. There are no financial impediments or legal or statutory constraints that would prevent the bank from meeting the credit needs of the community within the assessment area.

DESCRIPTION OF ASSESSMENT AREA

The bank's delineated assessment area consists of eight contiguous geographies located in Denton, Grayson, Collin, and Cooke counties. The four census tracts located in Collin County and Denton County are part of the Dallas Metropolitan Assessment Area (MSA) #1920. The three census tracts in Grayson County are part of the Sherman-Denison MSA #7640. The one geography in Cooke County is in a non-MSA area. Seven of the geographies are middle-income and one is upper-income. The defined assessment area is reasonably drawn and does not arbitrarily exclude any low- or moderate-income areas.

A local community contact described the Celina area as experiencing accelerated growth due to the influx of people moving into the area. The growth of nearby Frisco and Plano has spilled over into Celina and new businesses have sprung up to support the growing population. The contact stated that the affordable housing needs of the area had improved and Habitat for Humanity is beginning an initiative in Celina. The contact also stated that rental housing had become more available, but the need for additional rental units still exists. Comments about The First State Bank were highly favorable.

Table 2 presents additional demographic and economic data for the assessment area.

Table 2 - Demographic & Economic Characteristics of the Assessment Area	
Assessment Area Population	44,688
<u>Percentage of Households by Income Level of Household:</u>	
Low-Income	23.7
Moderate-Income	15.3
Middle-Income	18.6
Upper-Income	42.4
<u>Number of Total Housing Units:</u>	
1-4 Family Residential	15,588
Multi-Family	693
Mobile Home or Trailer	4,354
Other	378
Owner-Occupied Housing Units	12,942
Rental Housing Units	3,634
Vacant Housing Units	4,437
<u>Percentage of Total Housing Units:</u>	
1-4 Family Residential	74.2
Multi-Family	3.3
Mobile Home or Trailer	20.7
Other	1.8
Owner-Occupied Housing Units	61.6
Rental Housing Units	17.3
Vacant Housing Units	21.1
<u>Median Housing Characteristics:</u>	
Median Age in Years	13
Median Home Value	64,354
Median Gross Rent	409

*1990 Census; * This figure is based on estimates from the Department of Housing and Urban Development (HUD).*

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Test

The performance of The First State Bank was evaluated using small bank CRA procedures. The bank considers itself to be primarily a residential and consumer lender, each representing 27 percent and 20 percent of total loans, respectively. Accordingly, these two products were selected for this evaluation. During 2000 and 2001, the bank originated 262 residential real estate loans totaling \$13.8 million. The 2000 HMDA Disclosure and the 2001 HMDA Loan Application Register (LAR) were used to compile performance data for all the residential loan originations. The consumer loan evaluation was based on loans originated in 2001, during which year 564 loans were extended to individuals totaling \$6.2 million. For this twelve-month period, automobile-secured loans represented 71 percent of the number of loans and 68 percent of the dollar volume. A consumer loan sample of fifty loans was randomly selected from auto loans originated in 2001. A single year's originations was considered representative of the bank's overall performance with regard to consumer lending. At the time of this examination, there were too few HMDA and consumer loan originations in 2002 to enable a year-to-date analysis.

Lending to Borrowers of Different Income Levels

The bank's level of lending to borrowers of different income is satisfactory. This factor evaluates the bank's performance with regard to extending loans to individuals from the various income groups. Borrower income levels are based upon median family income, as established annually by the Department of Housing and Urban Development (HUD). The 2000 and 2001 median family incomes for the Dallas MSA, the Sherman-Denison MSA, and the Texas non-metropolitan areas are illustrated in *Table 3*.

Table 3 - Borrower Income Levels				
Income Level	Percent of Median Family Income	Dallas MSA Median Family Income	Sherman-Denison MSA Median Family Income	Non-MSA Median Family Income
		2000: \$60,800 2001: \$64,400	2000: \$42,100 2001: \$44,300	2000: \$34,700 2001: \$35,800
Low	Less than 50%	2000: Less than \$30,400 2001: Less than \$32,200	2000: Less than \$21,050 2001: Less than \$22,150	2000: Less than \$17,350 2001: Less than \$17,900
Moderate	50% to 79%	2000: \$30,400 - \$48,639 2001: \$32,200 - \$51,519	2000: \$21,050 - \$33,679 2001: \$22,150 - \$35,439	2000: \$17,350 - \$27,759 2001: \$17,900 - \$28,639
Middle	80% to 119%	2000: \$48,640 - \$72,959 2001: \$51,520 - \$77,279	2000: \$33,680 - \$50,519 2001: \$35,440 - \$53,159	2000: \$27,760 - \$41,639 2001: \$28,640 - \$42,959
Upper	120% and over	2000: \$72,960 or greater 2001: \$77,280 or greater	2000: \$50,520 or greater 2001: \$53,160 or greater	2000: \$41,640 or greater 2001: \$42,960 or greater

Department of Housing and Urban Development

Table 4 and Table 5 reflect the bank's performance with regard to home mortgage loans. The bank's level of lending to low-income borrowers in 2000 is less than that of the aggregate, but the lending in this income category increased in 2001 and compares favorably. Although the percentage of home loans to low-income borrowers is notably less than the percentage of low-income households in the assessment area, it should be noted that 55 percent of the low-income households are below the poverty level. The borrowing capacity of individuals in this income group would be limited and the loans of smaller size. Also, the median housing value of owner-occupied housing units is \$64,354, an amount that may be out of the reach of many low-income borrowers. In both years, the bank's extension of home loans to moderate-income borrowers is reasonably comparable to both the aggregate and the percentage of moderate-income households in the assessment area. Overall, the bank's distribution of loans among the various income levels is consistent with the demographics of the area and comparable to the aggregate of lenders.

Table 4 - Distribution of HMDA Loans by Borrower Income									
Borrower Income Level	% of Total Households	Aggregate Lending Data (% of #)		2000		2001		Total	
		2000	2001	#	%	#	%	#	%
Low	23.7	5.6	NA	1	0.9	9	8.6	10	4.7
Moderate	15.3	14.9	NA	13	12.3	11	10.5	24	11.4
Middle	18.6	23.9	NA	25	23.6	32	30.5	57	27.0
Upper	42.4	38.4	NA	52	49.1	47	44.8	99	46.9
\$0/NA Income	NA	17.3	NA	15	14.2	6	5.7	21	10.0
Total*	100	100	NA	106	100	105	100	211	100

Source: U.S. Census, HMDA Disclosure Statements (2000), HMDA LAR (2001), and HMDA Aggregate Data, * - Total percentage may not add to 100 due to rounding.

Table 5 - Distribution of HMDA Loans by Borrower Income									
Borrower Income Level	% of Total Households	Aggregate Lending Data (% of \$)		2000		2001		Total	
		2000	2001	\$ (000s)	%	\$ (000s)	%	\$ (000s)	%
Low	23.7	2.8	NA	5	0.1	328	5.9	333	3.1
Moderate	15.3	10.4	NA	469	8.8	660	11.9	1,129	10.4
Middle	18.6	21.1	NA	947	17.8	1,461	26.4	2,408	22.2
Upper	42.4	46.3	NA	3,141	59.0	2,903	52.4	6,044	55.6
\$0/NA Income	NA	19.4	NA	762	14.3	188	3.4	950	8.7
Total*	100	100	NA	5,324	100	5,540	100	10,864	100

Source: U.S. Census, HMDA Disclosure Statements (2000), HMDA LAR (2001), and HMDA Aggregate Data, * - Total percentage may not add to 100 due to rounding.

Table 6 illustrates the bank's distribution of consumer loans among the various income groups. Although the percentage of consumer loans to low-income borrowers is notably higher than the percentage of low-income households in the assessment area, this is often a reflection of the availability of funds among the income groups. Lower income borrowers frequently seek small dollar loans from their local banks, while higher income borrowers can draw on other sources of funds, such as savings accounts, investments, or credit cards. The bank's level of lending to moderate-income borrowers is consistent with the percentage of moderate-income households. Overall, the bank's performance is considered reasonable for this loan product.

Table 6 - Distribution of Consumer Loans by Borrower Income					
Borrower Income Level	% of Total Households	# of Loans	% of #	\$ of Loans (000s)	% of \$
Low	23.7	18	44.0	210	45.2
Moderate	15.3	8	19.5	62	13.3
Middle	18.6	9	21.9	105	22.6
Upper	42.4	6	14.6	88	18.9
Total	100	41	100	465	100

1990 Census; Bank Records

Loan to Deposit Ratio

The First State Bank's loan-to-deposit ratio is considered satisfactory. The loan-to-deposit ratio (LTD) is a means of measuring a bank's lending activity by comparing it to the volume of deposits held. Over the fifteen quarters since the last CRA evaluation, the LTD ratio has ranged from a low of 48.36 percent to the current high of 74.43 percent. The ratio has been on a rising trend for the last nine quarters and indicates the bank has made a commitment to serve the credit needs of the community.

Table 7 presents a summary of LTD ratios for this institution and three other community banks serving the same general area and offering similar products. The banks are listed in alphabetical order and no ranking is expressed or implied. As the table shows, The First State Bank's loan-to-deposit ratio is comparable to two of the peer banks and notably higher than the third.

Table 7 - Comparison to Similarly Situated Banks						
Bank Name	City/County	Total Assets (000s)	Total Loans (000s)	Total Deposits (000s)	Loan-to-Deposit Ratio 09/30/01	Average Loan-to-Deposit Ratio
Landmark Bank, NA	Denison/Grayson	41,689	29,875	37,719	78.18	64.88
Citizens State Bank	Princeton/Collin	55,198	18,555	50,929	36.19	36.91
The First National Bank of Bells	Bells/Grayson	38,556	21,938	33,362	65.27	66.73
<i>The First State Bank</i>	<i>Celina/Collin</i>	<i>65,459</i>	<i>43,789</i>	<i>58,832</i>	<i>74.43</i>	<i>58.31</i>

Source: September 30, 2001 Consolidated Reports of Condition and Income

Lending in the Assessment Area

The bank has demonstrated a satisfactory level of lending inside the assessment area. By both number and dollar volume, a solid majority of loans was originated within the assessment area, as would be expected given the location of the bank and the size of the defined area. Table 8 demonstrates the distribution of loans inside and outside the assessment area.

Table 8 - Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category or Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage										
2000	106	89.8	12	10.2	118	5,324	91.2	512	8.8	5,836
2001	122	84.7	22	15.3	144	6,840	85.4	1,166	14.6	8,006
Subtotal	228	87.0	34	13.0	262	12,164	87.9	1,678	12.1	13,842
Consumer	41	82.0	9	18.0	50	465	78.2	130	21.8	595
Total	269	86.2	43	13.8	312	12,629	87.5	1,808	12.5	14,437

Source: HMDA Disclosure (2000), HMDA LAR (2001), and bank records.

Geographic Distribution of Loans

The bank's distribution of lending within the assessment area is satisfactory. The HMDA and consumer loan sample was distributed among seven of the eight census tracts in the assessment area. Given that none of the BNAs or census tracts are categorized as low-or moderate-income areas, little weight is given this factor in the evaluation of the bank's performance.

COMPLAINTS

No CRA-related complaints were received by the institution since the last evaluation.

FAIR LENDING

No violations of the provisions of the anti-discrimination laws and regulations were identified.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN METROPOLITAN STATISTICAL AREA # 1920 – DALLAS MSA

The bank's record of lending in this MSA is consistent with its performance in the overall assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN METROPOLITAN STATISTICAL AREA #7640 – SHERMAN MSA

The bank's record of lending in this MSA is consistent with its performance in the overall assessment area.

APPENDIX A - GENERAL DEFINITIONS

GEOGRAPHY TERMS

Block: Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

Block Numbering Areas (BNAs): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Primary Metropolitan Statistical Area (PMSA): A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

Consolidated Metropolitan Statistical Area (CMSA): The larger area of which PMSAs are component parts.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

Rural Area: Territories, populations and housing units that are not classified as urban.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

Upper-Income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates, which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.