

# **PUBLIC DISCLOSURE**

**July 8, 2002**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First Texoma Bank  
Certificate Number: 16699**

**2626 Loy Lake Road  
Sherman, Texas 75090**

**Federal Deposit Insurance Corporation**

**Division of Supervision and Consumer Protection  
1910 Pacific Avenue, 19th 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 **First Texoma Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **July 8, 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**.

This is the bank's first CRA evaluation. Small bank performance factors were applied to this one-office, \$21 million bank located in Sherman, Texas. The performance factors are loan-to-deposit ratio, lending to borrowers of different incomes and businesses of different sizes, geographic distribution of loans, lending in the assessment area, and response to complaints. Management requested that investments and services not be reviewed.

When arriving at the overall rating, each performance factor carried equal weight, with the exception of the bank's response to CRA-related complaints. Since no such complaints had been received since the bank opened August 28, 2000, this performance factor carried no weight. As commercial loans represent the bank's major loan product, the evaluation of the bank's performance with regard to lending to borrowers of different incomes and businesses of different sizes and the geographic distribution of loans was based upon the bank's originations of commercial loans within the delineated assessment area. 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.

- The bank's average loan-to-deposit ratio of 88.01 percent demonstrates a strong performance within the context of the bank's resources and the assessment area's needs.
- Relative to the loan product reviewed and the demographics of the area, the bank has adequately extended loans to businesses of different sizes.
- Relative to the demographics of the area, the bank reasonably distributed its commercial loans throughout its assessment area geographies.
- Given the size of the assessment area, the 79 percent by number of loans and 56 percent by dollar amount of loans originated inside the assessment area reflects acceptable performance.

## DESCRIPTION OF INSTITUTION

First Texoma Bank opened for business in Grayson County in the city of Sherman, Texas, on August 28, 2000. Sherman is located approximately 65 miles north of Dallas, Texas. There are no branches. First Texoma Bank is wholly owned by FNB Financial Services, Inc., a two-bank holding company. The bank offers a variety of loan and deposit products. Twenty-four hour banking is available by means of one automated teller machine (ATM), phone banking, and on-line banking via the bank's web site. Lobby hours are reasonable with extended hours on Friday. The drive-through facility offers extended hours and is open until noon on Saturday.

As of the March 31, 2002, Reports of Condition and Income, the bank reported \$20.65 million in total assets, 83 percent of which are loans. *Table 1* illustrates the components of the loan portfolio by dollar amount and as a percentage of total loans.

<b>Table 1 - Loan Distribution as of 03/31/2002</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	2,320	13.5
Secured by Farmland	79	0.5
1-4 Family Residential	1,606	9.4
Multi-Family (5 or more) Residential	50	0.3
Commercial	8,034	46.9
<b>Total Real Estate Loans</b>	<b>12,089</b>	<b>70.6</b>
Commercial and Industrial	3,464	20.2
Agricultural	92	0.5
Consumer	1,491	8.7
Other	0	0
Less: Unearned Income	0	0
<b>Total Loans</b>	<b>17,136</b>	<b>100</b>

*Source: March 31, 2002 Consolidated Report of Condition and Income*

Since opening for business August 28, 2000, loans and deposits have increased steadily. 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 encompasses all of Grayson County, which is designated as the Sherman-Denison Metropolitan Statistical Area (MSA). The MSA is comprised of 22 census tracts: 1 low-income tract, 7 moderate-income tracts, 10 middle-income tracts, and 4 upper-income tracts. The bank is located in an upper-income tract that abuts two of the moderate-income geographies and the low-income geography. Three major hospitals and two colleges are the primary employers in the area.

According to the 2001 Business Geodemographic data supplied by Dun & Bradstreet, services and retail trade are the predominant industries and account for nearly 63 percent of all businesses. Eighty-eight percent of the commercial entities are classified as small businesses earning \$1 million or less in annual revenues and 70 percent employ less than 5 persons. *Table 2* presents additional demographic data for the assessment area.

<b>Table 2 - Demographic &amp; Economic Characteristics of the Assessment Area</b>	
*Assessment Area Population (MSA 7640)	113,184
** Number of Businesses in Assessment Area (MSA 7640)	5,309
<b>**Percentage of Businesses by Income Level of the Census Tract:</b>	
Low-Income	7.7
Moderate-Income	24.0
Middle-Income	43.1
Upper-Income	25.1
<b>**Percentage of Businesses by Gross Annual Revenues:</b>	
≤ \$1 million	88.0
>\$1 million	5.3
Revenues Not Reported	6.6
<b>** Percentage of Businesses by Number of Employees:</b>	
1-4	69.7
5-9	12.7
10-19	6.7
20-49	4.4
50+	2.6
Not reported	3.9

\* 2000 U.S. Census;

\*\* 2001 Business Geodemographic Data;

Percentages may not total 100 due to rounding.

A local community contact stated that, despite recent downturns following the events of September 11, 2001, the economy remains stable and small business development continues at a good pace. The contact indicated that the primary credit needs of the area are affordable housing and home improvement loans in the low- and moderate-income areas. The contact also noted the need for Small Business Administration loans (SBA). He described the banking environment as extremely competitive and felt that the banks were doing a good job of meeting the needs of the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Scope of Test

The performance of First Texoma Bank was evaluated using small bank CRA procedures. The evaluation period extends from August 28, 2000, to May 31, 2002. During this period, the bank originated 256 loans totaling nearly \$24 million. Commercial loans comprise 67 percent of total loans. Commercial construction loans account for approximately another 13 percent, bringing the overall dollar volume of commercial lending to 80 percent. As commercial loans comprise a substantial majority of the loan portfolio, and no other loan product represented more than 10 percent of the bank's loan dollar volume, the bank's performance was analyzed based on that loan type. Out of a universe of 102 commercial loans, a random sample of 39 commercial loans originated within the bank's assessment area served as the basis of the evaluation.

### Loan to Deposit Ratio

The loan-to-deposit ratio of First Texoma Bank exceeds standards for this criterion. 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. *Table 3* presents a summary of LTD ratios for this institution and four other banks. Although none of these banks are located in First Texoma Bank's assessment area, the banks are also newly chartered institutions and are primarily commercial lenders. The banks are listed in alphabetical order and no ranking is expressed or implied.

<b>Table 3 - Comparison to Similarly Situated Banks</b>						
<b>Bank Name</b>	<b>City/County</b>	<b>Total Assets (000s)</b>	<b>Total Loans (000s)</b>	<b>Total Deposits (000s)</b>	<b>Loan-to-Deposit Ratio 03/31/02</b>	<b>Average Loan-to-Deposit Ratio</b>
Community Bank of Texas	Grand Prairie/ Dallas	26,015	12,529	19,856	62.33	47.16
First Bank & Trust	Ennis/Ellis	20,593	19,121	13,385	141.43	127.38
<i>First Texoma Bank</i>	<i>Sherman/ Grayson</i>	<i>20,648</i>	<i>17,136</i>	<i>17,626</i>	<i>96.27</i>	<i>88.01</i>
Hbank Texas	Grapevine/ Tarrant	39,225	17,102	34,500	49.57	41.81
Park Cities Bank	Dallas/Dallas	57,533	45,887	51,934	88.36	89.65

*Source: March 31, 2002, Consolidated Reports of Condition and Income*

In the seven quarters since the bank opened its doors, the loan-to-deposit ratio has steadily risen and compares favorably to the peer banks. At the time of this evaluation, First Bank & Trust had been open for less than one year and experienced more rapid loan growth than deposit growth, hence the very high LTD ratio. The LTD ratio of First Texoma Bank is commendable considering the competitive banking environment in the Sherman-Denison area. Clearly, First Texoma Bank has made a strong commitment to meeting the credit needs of the community.

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

The bank has demonstrated a satisfactory level of lending to businesses of different sizes. This conclusion is based on an analysis of the revenue size of the businesses and the size of the loans.

With regard to revenue size, 77 percent of the number of the bank's commercial loans and 65 percent of the dollar amount are extended to small businesses with revenues of \$1 million or less. This compares reasonably with the business demographic data for the assessment area that shows 88 percent of all businesses in the area earn \$1 million or less in revenues.

The additional detail presented in *Table 4* shows that the majority of the bank's commercial loans are to businesses with revenues of \$500,000 or less, with the largest concentration to businesses earning \$100,000 or less. It is evident that the bank is serving the needs of the small business owner.

Gross Annual Revenues (000s)	Number of Loans		Dollars in Loans (000s)	
	#	%	\$	%
<b>\$100,000 or less</b>	10	25.6	872	17.6
<b>\$101,000 - \$250,000</b>	8	20.5	372	7.5
<b>\$250,000 - \$500,000</b>	8	20.5	1,611	32.5
<b>\$500,000 - ≤ \$1MM</b>	4	10.3	350	7.1
<b>&gt; \$1MM</b>	9	23.1	1,754	35.4
<b>TOTAL</b>	<b>39</b>	<b>100</b>	<b>4,959</b>	<b>100</b>

*Source: Bank Records; Percentage may not equal 100 due to rounding*

The size of the loans is an indicator of the bank's willingness to extend small loans. For CRA purposes, a small loan is defined as a loan of \$1 million or less. *Table 5* illustrates the number and dollar volume of commercial loan originations stratified by loan size.

All of the bank's commercial loans are for less than \$1 million, the largest being \$680,000. Notably, 62 percent of the number of the bank's commercial loans are for \$100,000 or less, with a significant percentage for \$50,000 or less. Because a few large loans can easily outweigh a larger number of small loans, the contrast between the dollar volume and number of loans is reasonable. Overall, the bank's extension of commercial loans demonstrates its commitment to serving the credit needs of businesses in the assessment area.

<b>Table 5- Distribution of Business Loans by Loan Size</b>				
<b>Loan Size</b>	<b>Number of Loans</b>		<b>Dollars in Loans (000s)</b>	
	<b>#</b>	<b>%</b>	<b>\$</b>	<b>%</b>
<b>\$50,000 or less</b>	16	41.0	396	8.0
<b>\$50,000 - \$100,000</b>	8	20.5	508	10.2
<b>\$100,001 - \$250,000</b>	10	25.6	1,680	33.9
<b>\$250,001 - \$500,000</b>	3	7.7	1,195	24.1
<b>&gt; \$500,000</b>	2	5.1	1,180	23.8
<b>TOTAL</b>	<b>39</b>	<b>100</b>	<b>4,959</b>	<b>100</b>

Source: Bank Records; Percentage may not equal 100 due to rounding

### Geographic Distribution of Loans

The bank's performance relative to the distribution of loans throughout the assessment area is satisfactory. *Table 6* presents the dispersion of loans among the various tract categories and compares it to the percentage of businesses in each tract category.

<b>Table 6 - Distribution of Commercial Loans by Income Level of Census Tract</b>					
<b>Tract Income Level</b>	<b>% of Businesses</b>	<b>Number of Loans</b>	<b>% of Number of Loans</b>	<b>Dollar Amount of Loans</b>	<b>% of Dollar Amount</b>
<b>Low</b>	<b>7.7</b>	4	10.3	129	2.6
<b>Moderate</b>	<b>24.0</b>	7	18.0	1,128	22.7
<b>Middle</b>	<b>43.1</b>	9	23.0	680	13.7
<b>Upper</b>	<b>25.1</b>	19	48.7	3,022	61.0
<b>TOTAL</b>	<b>100</b>	<b>39</b>	<b>100</b>	<b>4,959</b>	<b>100</b>

Source: 2001 Business Geodemographic Data; Bank Records  
Percentages may not add to 100 due to rounding

As the table shows, the bank's lending is more heavily skewed toward the upper-income census tracts although those geographies represent only 25 percent of the assessment area. Loans tend to cluster near a bank's physical location and that holds true with First Texoma Bank, which is located in an upper-income census tract. Fifteen of the 19 loans in the upper-income

geographies are located in or adjacent to the bank's census tract. Despite the level of lending in upper-income areas, loan originations in the low- and moderate-income geographies are reasonably comparable with the percentage of businesses located in those areas. By number of loans, lending in low-income geographies exceeds the percentage of businesses located in these geographies. Lending in moderate-income geographies is slightly less than the percentages of businesses located in moderate-income geographies. The bank's performance with respect to the geographic distribution of loans within the assessment area is considered satisfactory.

### **Lending in the Assessment Area**

The bank's record of lending within the delineated assessment area is considered satisfactory. An analysis of the download of all loans extended by the bank since its opening revealed that 202 of the 256 loans extended, or 79 percent of the number of loans were extended within the assessment area. By dollar amount of loans, \$13,225,600 of the \$23,597,000 in loans originated, or 56 percent of the dollar volume of originated loans were originated inside the assessment area.

### **Response to CRA Complaints**

No CRA-related complaints have been received by the institution since the bank opened in August 2000.

### **Fair Lending**

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

### **Investments and Services**

Bank management did not request a review of the bank's investments and services for consideration of an outstanding rating.

## GLOSSARY

**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.

**Assessment Area:** A geographic area delineated by the bank in accordance with the requirements of the Community Reinvestment Act.

**Census Tract:** A small locally demarcated area, usually in a metropolitan neighborhood, defined by the decennial census to generally consist of stable boundaries and an average population of 4,000.

**Geography:** A census tract or block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

**Low-Income:** Individuals and geographies having a median family income less than 50 percent of the area median income.

**Median Family Income (MFI)** - is derived from the 1990 U.S. Census data or estimated annually by the Department of Housing and Urban Development.

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

**Moderate-Income:** Individuals and geographies having a median family income of at least 50 percent and less than 80 percent of the area median income.

**Middle-Income:** Individuals and geographies with a median family income of at least 80 percent and less than 120 percent of the area median income.

**Upper-Income:** Individuals and geographies with a median family income of 120 percent or more of the area median income.