

PUBLIC DISCLOSURE

June 16, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Bank
Certificate Number: 14256**

**First Street and Devine
P. O. Box 830
Groveton, Texas 75845-0830**

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.

TABLE OF CONTENTS

I.	General Information.....	1
II.	Institution Rating	1
III.	Description of Institution.....	2
IV.	Description of Assessment Area.....	3
V.	Conclusions with Respect to Performance Criteria	
	a. Lending in the Assessment Areas	5
	b. Geographic Distribution of Loans	5
	c. Lending to Borrowers of Different Incomes and Farms of Different Sizes	7
	d. Loan-to-Deposit Ratio	9
	e. Response to Complaints & Compliance with Fair Lending Regulations	10
VI.	Glossary	11

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 Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **June 16, 2003**. 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**.

First Bank received an "Outstanding" rating at the September 8, 1997 evaluation. The current lending performance of First Bank supports an overall satisfactory rating after evaluating performance for all five "small bank" performance criteria. The performance factors considered for the evaluation are lending inside the assessment area, geographic distribution of loans, lending to borrowers of different incomes and farms of different sizes, loan-to-deposit ratio, and response to CRA-related complaints. Investments and services were not reviewed.

In arriving at the overall rating for this institution, examiners put no emphasis on CRA-related complaints since there were no complaints received since the last evaluation. Within each of the performance factors that relate to sampled loans, more consideration was given to consumer loans as it comprises more than 81 percent of the bank's loan origination by loan number and more than 53 percent by dollar volume. The following is a summary of the conclusions, derived from the evaluation of each factor, to support this rating:

- A substantial majority of sampled loan originations are within the bank's assessment area which reflects a strong performance.
- The bank's dispersion of loans within its assessment area indicates strong performance.
- An analysis of sampled loan originations reveals an excellent penetration among borrowers of different income levels and poor penetration to farms of different sizes. Overall, the bank's performance for this factor is considered satisfactory.
- The average loan-to-deposit ratio of 44.3 percent indicates adequate responsiveness to community credit needs.

DESCRIPTION OF INSTITUTION

First Bank is a community bank that operates in one location in Groveton, Texas. Groveton, the county seat of Trinity County, is near the center of the county and 90 miles northeast of Houston. The bank is wholly-owned by Citizens State Financial Corporation (CSFC), a two-bank holding company. CSFC also owns The Citizens State Bank, located in Corrigan, Texas, which is within 18 miles southeast of Groveton. No legal or financial impediments exist which would prohibit the bank from meeting the credit needs of the community.

First Bank's March 31, 2003, Consolidated Report of Condition and Income reports total assets of \$35,193,000 and total loans of \$12,981,000. Table 1 contains information about First Bank's loan portfolio mix as of March 31, 2003.

Table 1 – Loan Distribution as of March 31, 2003		
Loan Type	Amount \$(000)	Percent of Total Loans (%)
Construction, land development, and other land loans	972	7.5
Secured by farmland	1,300	10.0
1-4 Family Residential	2,494	19.2
Commercial	2,337	18.0
<i>Total Real Estate Loans</i>	<i>7,103</i>	<i>54.7</i>
Agricultural	744	5.7
Commercial and Industrial	870	6.7
Consumer	4,355	33.6
Obligations of states and political subdivisions	94	0.7
Other	22	0.2
Unearned Income	(207)	(1.6)
Total Loans	12,981	100.0

Source: Consolidated Report of Condition and Income

The institution offers an array of deposit services, including, commercial, consumer, construction, and real estate loans. The institution also offers personal checking accounts, business accounts, student accounts, savings accounts, money market accounts, NOW accounts, and certificates of deposits. Services include wire transfer, automated teller machine (ATM), cashier's and traveler's checks, safe deposit boxes, and night depository. Customers may access their accounts through the ATM which is located at the main office. Customers may make internal transfers and withdraw cash; however, the ATM does not take deposits. The bank maintains an Internet Web site, which offers bank product and information only. First Bank has adequate resources to meet the loan and deposit needs of its customers. First Bank offers convenient lobby operations and drive-through services as detailed in Table 2 on the following page.

Table 2 – Banking Hours	
Lobby	Monday – Thursday: 9 a.m. to 3 p.m. Friday: 9 a.m. to 5 p.m.
Drive-through	Monday – Thursday: 8 a.m. to 5 p.m. Friday: 8 a.m. to 6 p.m.

DESCRIPTION OF ASSESSMENT AREA

First Bank has defined the whole Trinity County as its assessment area which consists of five block numbering areas (BNAs). Three BNAs are designated as moderate-income areas and two as middle-income areas. There are no low-income or upper-income geographies within the bank’s assessment area. First Bank’s only office is located in a moderate-income geography. The assessment area meets CRA requirements and does not arbitrarily exclude low- and moderate-income areas.

The 1990 U.S. Census reports the assessment area with a population of 11,445. The latest 2000 U.S. Census indicated that during the last ten years, the population of Trinity County increased by approximately 20 percent. The comparable figure for the State of Texas is 23 percent. The 1990 median family income (MFI) for the non-Metropolitan Statistical Areas (non-MSAs) of State of Texas is \$24,585. The Department of Housing and Urban Development (HUD) estimated the 2002 and 2003 non-MSAs MFI as \$36,100 and \$41,200, respectively. Table 3 below illustrates the general demographic information of the assessment area according to the 1990 U.S. Census:

Table 3: Assessment Area BNA Data by Income Level						
Income Level	Number of BNAs	Percent of BNAs (%)	Population	Percent of Population (%)	Number of Households	Percent of Households (%)
Moderate	3	60.0	6,959	60.8	2,709	58.0
Middle	2	40.0	4,486	39.2	1,961	42.0
Total	5	100.0	11,445	100.0	4,670	100.0

Source: 1990 U.S. Census

Trinity County, the bank’s designated assessment area, is bordered on three sides by Lake Livingston. The population has shown moderate growth in recent years. Historically the economy of the area was based on timber production. With the completion of the Trinity River Authority’s 90,000-acre Lake Livingston in early 1970s, tourism and outdoor recreation have become vital industries.

The area’s economy is essentially unchanged since the last review. Local school district, state prison system, tourism, and forestry are the major employers. The area’s largest employer, Groveton Independent School District, employs about 110 individuals. Other major employers

in the area are Texas Department of Criminal Justice, Camp Olympic (sports/recreation camp), Hartway Three (nursing home), and the county court.

The 4th quarter 2002 unemployment rate for Trinity County is 5.0 percent. The comparable figure for the state of Texas is 5.9 percent. Overall, the area’s unemployment rate fluctuated between 5.0 percent to 6.0 percent since 3rd quarter 2001.

A community contact indicated the local economy remains basically unchanged. The contents of the interview are summarized as follows. Major employment comes from the state prison system, tourism, and forestry industry, in addition to the local school district. Hispanic population is gradually rising. Local banks participate and are very active in community activities and services, especially the subject bank. Community credit needs have generally been met.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Sampling Information

As depicted in Table 4 below, both by number and by dollar volume, First Bank’s consumer loans comprise the largest category. By number, agricultural (small farm) loans constitute the second largest category. Since consumer loans and small farm loans constitute the largest loan category by number and are considered major loan products by the bank, these loan types were used to evaluate the bank’s lending performance under the Community Reinvestment Act. Commercial loans were not analyzed because this line is not considered integral to the bank’s business strategy. Residential real estate loans were not analyzed because there are an insignificant number of loans to sample in order to arrive at a useful conclusion and have little bearing on the overall performance of the bank. As a result, consumer and small farm loans were used to evaluate the bank’s lending performance under the Community Reinvestment Act. Loan samples originated in years 2002 and 2003 were used for this evaluation, as the lending activity is consistent with the activity since the last evaluation.

Table 4 - Loan Originations from May 1, 2002 to May 15, 2003				
Loan Type	Number	Percent (%)	Amount \$(000)	Percent (%)
Agricultural	145	9.5	1,521	16.7
Commercial	100	6.6	1,847	20.2
Consumer	1,247	81.8	4,915	53.9
Residential Real Estate	32	2.1	844	9.2
Gross Loans	1,524	100.0	9,127	100.0

Source: Bank records.

A random sample of 43 consumer loans totaling \$113,000 originated between May 1, 2002 and May 15, 2003 was reviewed from a potential universe of 1,247 loans totaling \$4,915,000 for the

same time period. Another sample of 34 small farm loans totaling \$316,000 was reviewed from a potential universe of 145 loans totaling \$1,521,000. All loans reviewed were randomly selected, using a 90 percent confidence level and 15 percent precision level.

LENDING IN THE ASSESSMENT AREA

The bank’s proportion of lending activity within the assessment area reflects a strong performance.

An assessment area is a geographical area in which the bank intends to concentrate the majority of its lending. Criteria for a bank’s lending performance is based on the number and dollar volume of loans originated within the assessment area. Table 5 on the following page illustrates First Bank’s lending in the assessment area.

Table 5 – Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category	Number of Loans					Dollars Volume of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Small Farm	32	94.1	2	5.9	34	303	95.9	13	4.1	316
Consumer	38	88.4	5	11.6	43	102	90.3	11	9.7	113
Total	70	90.9	7	9.1	77	405	94.4	24	5.6	429

Source: Bank Records.

As indicated in Table 5, First Bank makes substantial majority of consumer loans and small farm loans inside the assessment area demonstrating a strong performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of sampled loans reflects strong dispersion throughout First Bank’s assessment area in relation to the geographic makeup and location of the bank’s offices. The bank’s overall record is based on a strong record for consumer loans and an adequate performance for small farm loans.

An analysis of the geographic distribution of consumer loans and small farm loans within the bank’s assessment area was performed using the sampling procedures previously described. As previously noted, there are no low-income geographies within the bank’s assessment area.

Consumer Loans

The geographic distribution of consumer loans reflects a strong performance in the assessment area when compared to the percent of households. Table 6 on the following page represents the

geographic distribution of sampled consumer loans by number and dollar volume, which reflects strong performance compared to the number of households in those geographies.

Table 6– Geographic Distribution of Consumer Loans					
Income Level of BNAs	Percent of Number of Households	Number of Loans		Dollar Volume of Loans	
	%	#	%	\$(000)	%
Moderate	58.0	29	76.3	75	73.5
Middle	42.0	9	23.7	27	16.5
Total	100.0	38	100.0	102	100.0

Source: 1990 U.S. Census. Bank records.

There are three moderate-income geographies within First Bank’s assessment area. First Bank is located in Groveton, a moderate-income geography. The second moderate-income geography is in Glendale, located south of Groveton, and the third such geography is located in Trinity, which is about 20 miles away. Because of proximity, individuals from Groveton, Glendale, and Apple Spring are more likely to bank at First Bank. The percent of number of households in Groveton is 30.6, and Glendale is 7.3 percent. Apple Spring is located in a middle-income geography.

Therefore, considering First Bank’s assessment area, the bank’s record of lending to consumers reflects a strong record of lending within the assessment area, when compared to the percent of households in those geographies.

Small Farm Loans

Table 7 below depicts the geographic distribution of First Bank’s small farm loans and is considered adequate. No meaningful aggregate small farm lending data is available for the assessment area. However, with the number of farms distributed approximately similar to that of the number of households as indicated in Table 6, the percent of number of households was used as proxy for small farms aggregate lending data comparison.

Table 7 – Geographic Distribution of Small Farm Loans				
Income Level of Census Tracts	Number of Loans		Dollar Volume of Loans (000)	
	Number	Percent (%)	Number	Percent (%)
Moderate	25	78.1	196	64.7
Middle	7	21.9	107	35.3
Total	32	100.0	303	100.0

Source: CRA Aggregate Data. Bank records.

However, a review of the 32 small farm loans sampled indicates they are concentrated in two geographies of Groveton, a moderate-income geography, and Apple Springs, a middle-income geography. The other three geographies where no sampled small farm loans were noted are

located in the towns of Glendale, a moderate-income geography, and Trinity which consists of one moderate- and one middle-income geography. First Bank operates in one location and does not have a branch office in both towns. With only 7.3 percent of the assessment's households are in Glendale, it is a sparsely populated town. However, Trinity has two local banks and is located 20 miles southwest of Groveton. For convenience, farmers in Trinity bank locally. However, a review of the 145 farms loans made under the review period, eight were located in Trinity. Considering the assessment area's demographics, the distribution of small farm loans among its geographies, its performance is considered adequate.

Taking into consideration the record of lending for consumer, where more weight was placed, and small farm loans, the bank's overall record of lending in geographies of different incomes indicates a strong performance in relation to the geographic makeup and location of the bank's offices.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND FARMS OF DIFFERENT SIZES

The bank's record of lending to individuals of different incomes and small farms of different sizes is satisfactory. The overall rating is based on an excellent penetration among consumer loan borrowers of different income levels and poor record to farms of different sizes. By number, consumer loans consist of more than 81 percent of the bank's loan origination and more than 53 percent by dollar volume. As such, more consideration was given to consumer loans when arriving at conclusions for this performance factor.

Consumer Loans

The bank's record of lending to individuals on consumer loans reveals an excellent penetration among borrowers of different income levels.

The analysis of the distribution of consumer loans by borrower income was conducted using the sampling procedures previously described. Income classification and household statistics for the assessment area were derived from the 1990 U.S. Census data. The Department of Housing and Urban Development (HUD) estimated the 2002 and 2003 non-Metropolitan Statistical Areas MFI as \$36,100 and \$41,200, respectively were used in this analysis. Table 8 below provides information on how each income level is defined.

Table 8 - Income Ranges for Assessment Area			
Income Level	Percent of MFI	Income Range 2002	Income Range 2003
Low	Less than 50%	Less than \$18,050	Less than \$20,600
Moderate	50% to < 80%	\$18,050 to < \$28,880	\$20,600 to < \$32,960
Middle	80% to < 120%	\$28,880 to < \$43,320	\$32,960 to < \$49,440
Upper	120% and over	\$43,320 and over	\$49,440 and over

Table 9 on the following page presents a comparison of the number and dollar volume of consumer loans extended within the bank’s assessment area and was compared to the percent of households with incomes in these ranges. As indicated in Table 9, the bank’s lending performance by number and dollar is excellent as it exceeds the percentage of the assessment area households for low-income borrowers by a wide margin. The penetration of consumer loans is typically skewed towards low- and moderate-income borrowers. Some reasons for this may be the greater need for these short-term, smaller dollar loans by this group than the higher income groups who have greater access to alternative funding sources such as credit cards. The bank’s record of lending to low-income borrowers is excellent. For moderate-income borrowers, the bank’s penetration is poor. However, with 84 percent of loans made to low-income individuals and 95 percent of loans made to low- or moderate-income borrowers, the bank’s overall record of lending to consumers is excellent.

The bank had made an effort to accommodate low- and moderate-income individuals with any reasonable credit request. A review of the 1,247 consumer loans made during this review period indicated the bank made 385 loans in the amount of \$1,000 or less and 629 loans in the amount of \$1,500 or less with some as low as \$100.

Table 9 – Distribution of Consumer Loans by Borrower Income					
Borrower Income Level	Percent of Households Income	Number of Loans		Dollar Volume of Loans	
	%	#	%	\$(000)	%
Low	28.9	32	84.2	82	80.3
Moderate	18.8	4	10.6	7	6.9
Middle	16.4	1	2.6	2	2.0
Upper	35.9	1	2.6	11	10.8
Total	100.0	38	100.0	102	100.0

Source: 1990 U.S. Census. Bank records

The bank’s record of lending to borrowers of different incomes reflects an excellent penetration among consumer loan borrowers of different income levels.

Small Farm Loans

The bank’s record of lending to farms of different revenues is poor. Table 10 on the following page presents information on the number and dollar volume of small farm loans extended within the bank’s assessment area.

Table 10 – Distribution of Small Farms Loans by Gross Annual Revenues					
Gross Annual Revenues	Percentage of Farms by Value of Sales*	Number of Loans		Dollar Volume of loans	
		#	%	\$(000)	%
\$10,000 ≤ 49,999	85.7	19	63.3	160	53.6
\$50,000 ≤ \$99,999	6.0	9	30.0	115	38.0
≥ \$100,000	8.3	2	6.7	25	8.4
Total	100.0	30	100.0	\$301	100.0
(N/A: \$0 – 9,999)	N/A	2	N/A	2	N/A

Source: Bank records. * 1997 USDA Census of Agriculture

Table 10 shows that the bank’s lending to farms with gross annual revenues of between \$10,000 and \$49,999 is substantially lower than the assessment area demographics. The bank’s lending patterns indicates it needs to improve in meeting the credit needs of farms of all sizes, including small farms, within the assessment area.

The data includes farms of all sizes with sales of less than \$1,000 up to \$500,000 or more, and as much as 74 percent of the total number of farms fall into the \$10,000 or less sales bracket. Bank management indicated that a farmer generating less than \$10,000 in sales is likely to be a hobby or part-time farmer. If a full-time farmer only has sales of \$10,000 or less, he/she would most likely be unable to obtain credit and will have to depend on his equity. Therefore, deducting the farms below \$10,000 in sales to determine the composition of farms in a community (county) would give the best data for comparative purposes currently available.

First Bank’s overall record of lending to borrowers of different incomes and small farms of different sizes is satisfactory based on the excellent penetration among borrowers of different income levels and poor performance to small farms of different sizes.

LOAN-TO-DEPOSIT RATIO

The bank’s lending activity, as measured by its loan-to-deposit ratio reflects adequate responsiveness to community credit needs. Since loans are primarily funded through the bank’s deposits, examiners reviewed the bank’s loan-to-deposit ratio as an indicator of the institution’s level of lending activity. Using data from the Consolidated Reports of Condition and Income for the 23 quarters since the previous evaluation, the bank’s average loan-to-deposit ratio is 44.3 percent. Table 11 on the following page compares First Bank’s average loan-to-deposit ratio to the ratios of its peers.

Table – 11 Loan-to-Deposit Ratio Comparative Analysis as of March 31, 2003				
Bank Name	Total Assets \$(000)	Net Loans \$(000)	Total Deposits \$(000)	Average Loan- to-Deposit Ratio (%)
<i>First Bank – Groveton</i>	35,193	12,812	30,867	44.3
<i>Comparable Banks:</i>				
The First National Bank of Trinity	37,508	17,885	33,556	49.5
The Citizens State Bank – Corrigan	40,533	19,374	35,044	56.1
State Bank of Jewett – Jewett	41,041	13,944	34,511	45.0
Lovelady State Bank - Lovelady	26,737	17,207	23,583	58.1

Source: Reports of Condition and Income

First Bank’s average loan-to-deposit ratio is comparable with its peers. The four comparable banks were included in the comparison because of their similar portfolio mix, asset size, and locations. First Bank’s quarterly loan-to-deposit ratios, range from low 40s to middle 40s percentile, have remained steady since the last evaluation.

First Bank’s loan-to-deposit ratio is adequate, given its size, financial condition, and assessment area credit needs.

RESPONSE TO COMPLAINTS

There have been no CRA-related complaints received since the previous evaluation.

COMPLIANCE WITH FAIR LENDING REGULATIONS

No substantive violations of Fair Lending regulations were identified during the examination.

GLOSSARY

Block Numbering Area (BNA) - a small locally demarcated area, usually in a metropolitan neighborhood.

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

Dun & Bradstreet – a leading provider of business information for credit, marketing and purchasing decisions in the U.S. and worldwide.

Low-income -

- for a census tract - this refers to income levels less than 50% of the MFI for the MSA in which the tract is located.
- for individuals - this refers to income levels less than 50% of the most recent year's estimation of the MFI by the Department of Housing and Urban Development (HUD).

MFI - median family income as determined by the Census Bureau or HUD.

Middle-income - determined using the same methodology as for low-income. The percentage used for middle-income designation is $80\% \leq 120\%$.

Moderate-income - determined using the same methodology as for low-income. The percentage used for moderate-income designation is $50\% \leq 80\%$.

MSA - metropolitan statistical area as determined by the Census Bureau. Usually consists of contiguous census tracts and block numbering areas comprising one or more counties including a large population nucleus and nearby communities that have a high degree of interaction and which usually have a combined population of greater than 50,000.

Upper-income - determined using the same methodology as for low-income. The percentage used for upper-income designation is 120% or greater.