

PUBLIC DISCLOSURE

April 18, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Bank of Snook
F M 2155
Snook, Texas 77878

RSSD #260868

Federal Reserve Bank of Dallas
2200 North Pearl Street
Dallas, Texas 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.

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The bank's performance was evaluated using the CRA small bank performance standards. A sample of 75 consumer motor vehicle loans made during 2004 and HMDA loans made during 2003 and 2004 were used to conduct this evaluation.

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

Major factors supporting the institution's rating include:

- An excellent loan-to-deposit ratio of 76.1 percent as of December 31, 2004, and an average of 90.5 percent for the 15 quarters since the previous evaluation;
- A substantial majority in dollar and number volume of housing-related and consumer loans made inside the bank's assessment area;
- Exceptional distribution among the geographies, especially low- and moderate-income areas;
- Admirable distribution of loans among individuals of different income level; and
- The bank provided a commendable level of qualified investments and services.

DESCRIPTION OF INSTITUTION

First Bank of Snook, Snook, Texas (First Bank) is owned by a one bank holding company, Snook Bancshares, Inc., Snook, Texas. First Bank is a full-service retail bank operating two banking offices. The main office is located in Snook, Burleson County, Texas, and a branch is located in College Station, Brazos County, Texas. The bank offers commercial, agricultural, home purchase, mortgage refinance, and consumer loans. A variety of deposit products are offered, and the bank operates one automated teller machine (ATM) in Snook.

As of December 31, 2004, First Bank reported total assets of \$48.8 million, total deposits of \$43.3 million, and gross loans of \$33.6 million. Real estate loans were the largest loan product by dollar volume and consumer loans were the largest by number of originations. The following table provides further detail on the bank’s loan portfolio mix as of 12/31/04.

LOAN TYPE	12/31/2004 (IN THOUSANDS)	PERCENT OF GROSS LOANS
Real Estate		
Residential	\$12,143	36.1
Interim Construction	5,302	15.8
Commercial	4,430	13.2
Agriculture	<u>311</u>	<u>0.9</u>
Total Real Estate	22,186	66.0
Consumer – All Other	9,494	28.2
Commercial and Industrial	1,491	4.4
Agricultural	425	1.3
Other	18	0.1
Gross Loans	\$33,614	100.0

The bank received a satisfactory rating at its last CRA evaluation conducted by this Reserve Bank as of April 9, 2001. The bank’s ability to meet various community credit needs has not been hampered by its capacity to lend.

DESCRIPTION OF BRAZOS AND BURLESON COUNTIES (Portion of the Bryan-College Station Metropolitan Statistical Area (MSA))

First Bank’s assessment area (AA) consists of Brazos and Burleson Counties, a portion of the Bryan-College Station MSA (17780). Brazos County is located between the Navasota and Brazos rivers in southeast central Texas, is bounded on the northwest by Robertson County, on the east by Madison and Grimes counties, on the south by Washington County, and on the southwest by Burleson County.

Bryan is the county seat, and College Station is the other major community in Brazos County.

College Station is home to Texas A&M University (TAMU), the state's first public institution of higher education and one of the largest in the nation. The population for Brazos County as of the 2000 census data was 152,415 and estimated to be 156,275 as of 2004. Caldwell is the largest town and the county seat for Burleson County. The population for Burleson County as of 2000 was 16,470 and estimated to be 17,057 in 2004. Snook's population was 568 as of 2000.

As of 2003, Brazos County was the only county in the Bryan-College Station MSA; while Burleson County was categorized as a non-metropolitan area. Typically, these counties would be reviewed as two separate assessment areas; however, only one loan in a middle-income tract was made in the non-metropolitan area of Burleson County in 2003. As a result, it was determined that the one loan would not materially impact the bank's performance overall and an analysis of each area would not be beneficial. The MSA definition changed in 2004, with Burleson, Brazos and Robertson Counties now comprising the Bryan-College Station MSA.

Demographic and economic information also impact the bank's performance context and are discussed below. Information was obtained from publicly available sources including the U.S. Department of Commerce's Bureau of the Census, 2000; the U.S. Department of Labor; the U.S. Department of Housing and Urban Development (HUD); Dun & Bradstreet; Texas A& M University, and the Texas Workforce Commission. The following chart details selected characteristics of the assessment area:

Demographics Report

Analysis Year: 2004

Assessment Area(s): Brazos and Burlson Counties

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	1	2.9	581	1.6	220	37.9	8,123	23.0
Moderate-income	10	28.6	8,381	23.8	2,166	25.8	5,753	16.3
Middle-income	16	45.6	15,877	44.9	2,095	13.2	6,342	18.0
Upper-income	7	20.0	10,492	29.7	427	4.1	15,113	42.7
Tract not reported	1	2.9	0	0.0	0	0.0	0	0.0
Total Assessment Area	35	100.0	35,331	100.0	4,908	14.0	35,331	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	1,621	21	0.1	1.3	1,559	96.2	41	2.5
Moderate-income	17,888	5,455	18.1	30.5	10,972	61.3	1,461	8.2
Middle-income	32,061	14,572	48.2	45.5	14,077	43.9	3,412	10.6
Upper-income	15,642	10,163	33.6	65.0	4,738	30.3	741	4.7
Tract not reported	8	0	0.0	0.0	8	100.0	0	0.0
Total Assessment Area	67,220	30,211	100.0	45.0	31,354	46.6	5,655	8.4
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	85	1.4	68	1.2	6	1.4	11	4.0
Moderate-income	1,606	26.1	1,413	25.9	100	23.4	93	33.9
Middle-income	2,622	42.5	2,326	42.6	193	45.1	103	37.6
Upper-income	1,847	30.0	1,652	30.3	128	29.9	67	24.5
Unknown-income	3	0.0	2	0.0	1	0.2	0	0.0
Total Assessment Area	6,163	100.0	5,461	100.0	428	100.0	274	100.0
Percentage of Total Businesses:				88.7		6.9		4.4
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	10	5.3	10	5.5	0	0.0	0	0.0
Middle-income	110	58.5	107	58.5	3	75.0	0	0.0
Upper-income	68	36.2	66	36.0	1	25.0	1	100.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	188	100.0	183	100.0	4	100.0	1	100.0
Percentage of Total Farms:				97.3		2.1		0.5

Income Characteristics

The assessment area consists of one (2.9 percent) low- and 10 (28.6 percent) moderate-income census tracts, as well as 16 middle- and 7 upper-income census tracts. The low- and moderate-income census tracts are all located in Brazos County. Low- and moderate-income (LMI) families comprise 39.3 percent of total families in the assessment area. Families living below the poverty level make up 14 percent of the population, which is slightly above the statewide MSA average of almost 12 percent.

The community contact stated that for more than two decades this area is one of the poorest in Texas, primarily as a result of underemployment. Underemployment occurs when a portion of the labor force is either working in positions or fields for which they are considered overqualified.

Housing Characteristics

There are 67,220 housing units in the assessment area, 45 percent are owner-occupied. Almost 67 percent of the area housing units are 1-4 family units. The assessment area vacancy rate at 8.4 percent is slightly below state's rate 9.4 percent. However, in Burleson County, of the 8,197 housing units, 22 percent or 1,834 are vacant, while 6.5 percent are vacant in Brazos County. In the low-income tract, 96 percent of units are rental. In the moderate-income tracts, 61 percent are rental units. Overall, the median age of housing stock in the assessment area is 20 years. In the low-income tract, the median age is 26 years and is 23 years in moderate-income tracts. The median housing value in the AA at \$82,289 is higher than the state average of \$77,800, and is considerably higher when compared to the lower values of \$74,000 in the low-income tract and \$48,215 in moderate-income tracts. For the assessment area, the affordability ratio is 35, compared to 51 for the state. Affordability ratios allow for an evaluation of housing prices in relation to household income. An affordability ratio, developed by dividing the median household income by the median household value for a given area or group of geographies, is helpful in comparing housing costs for different areas. An area with a higher ratio generally has more affordable housing than an area with a lower ratio. The affordability ratio for the assessment area indicates housing is less affordable than it is for the state.

The contact mentioned that innovative financing programs for affordable housing are needed for low- and moderate-income borrowers who have little or no money for down payments and whose credit is less than perfect.

Labor, Employment and Economic Characteristics

The largest employer in the area is Texas A&M University with over 12,000 employees. Jobs in education, health services, government, and agribusiness are the economic base for this assessment area. The 2004 annual average labor force totals for Brazos County was 85,195 and 8,143 for Burleson County. The 2004 annual average unemployment rate for Brazos County was 1.9 percent and 4.9 percent for Burleson County, while Texas was 5.9 percent. According to Dun & Bradstreet, there are 6,163 businesses and 188 farms in the assessment area. Eighty-eight

percent of businesses and 97 percent of farms in the assessment area have annual revenues of one million dollars or less.

According to the community contacts, although the unemployment rate is lower than the state average, the area continues to deal with underemployment. The unemployment rate continues to remain very low primarily as a result of the economic stability of the area's largest employer, TAMU. The area is in dire need of higher paying jobs, according to the community contact.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

First Bank’s net loan-to-deposit (LTD) ratio is considered excellent, given the bank’s size and financial condition, competition, and the credit needs of the assessment area. As of December 31, 2004, the LTD ratio was 76.1 percent, and the quarterly average for 15 quarters since the previous evaluation was 90.5 percent.

The bank was compared to two banks in the area; however, both are substantially larger than First Bank in asset size. Bank management considers both banks as major competitors, as well as local branches of large banks and area mortgage companies.

BANK	COUNTY	TOTAL ASSETS 12/31/04 (IN '000s)	LTD RATIO 12/31/04	QUARTERLY* AVG. LTD RATIO
First Bank of Snook Snook, Texas	Burleson	48,767	76.1	90.5
Citizens State Bank Somerville, Texas	Burleson	189,278	56.7	50.0
First National Bank Bryan, Texas	Brazos	393,501	74.9	70.1

*Based on 15 quarters

LENDING IN ASSESSMENT AREA

The bank’s loan performance under this criterion was evaluated based upon a review of all HMDA reportable loans originated by the bank between January 1, 2003 and December 31, 2004; and a sample of 75 consumer motor vehicle loans originated between January 1, 2004 and December 31, 2004. A substantial majority of the loans were extended inside the AA. Approximately 92 percent of 2003 and 84 percent of 2004 HMDA reportable loans were originated to borrowers living inside the AA. Additionally, 80 percent of consumer motor vehicle loans were originated to borrowers living inside the AA. On a dollar basis, 87.4 percent were made inside the AA in 2003 and 78.7 percent in 2004. Overall lending to borrowers inside the AA meets the expectations for excellent performance. The following chart summarizes the lending inside the bank’s assessment area by loan type:

ANALYSIS OF LENDING IN THE ASSESSMENT AREA								
Loan Type	Inside Assessment Area				Outside Assessment Area			
	#	%	\$000's	% of \$	#	%	\$000's	% of \$
2003								
HMDA	33	91.7	\$2,794	87.4	3	8.3	\$402	12.6
2004								
HMDA	16	84.2	\$1,281	79.2	3	15.8	\$336	20.8
Motor Vehicle	60	80.0	\$849	78.0	15	20.0	\$240	22.0
TOTAL	109	83.8	\$4,924	83.4	21	16.2	\$978	16.6

LENDING TO BORROWERS OF DIFFERENT INCOMES

The distribution of lending based on income levels of the borrowers reflects an excellent penetration and exceeds the requirements for satisfactory performance. The income levels of the borrowers were compared to the HUD-adjusted median family income (MFI) for Bryan-College Station, Texas MSA. The following table depicts the income level ranges for 2003 and 2004:

BRYAN-COLLEGE STATION, TEXAS MSA/MD HUD-ADJUSTED MEDIAN FAMILY INCOME		
INCOME LEVEL	2003	2004
Low income	< \$26,150	< \$25,350
Moderate income	\$26,150 < \$41,840	\$25,350 < \$40,560
Middle income	\$41,840 < \$62,760	\$40,560 < \$60,840
Upper income	\$62,760 and up	\$60,840 and up
Median Family Income	\$52,300	\$50,700

The following table presents the distribution by borrower income of the residential real estate loans inside the AA.

DISTRIBUTION OF HMDA LOANS BY MEDIAN FAMILY INCOME LEVEL						
Income Level	Percent of Families	2003 HMDA		Percent of Families	2004 HMDA	
		#	%		#	%
Low-income	23.2	4	12.1	23.0	1	6.3
Moderate-income	16.2	5	15.2	16.3	1	6.3
Middle-income	18.8	4	12.1	18.0	4	25.0
Upper-income	41.8	19	57.6	42.8	10	62.4
Unknown	0.0	1	3.0	0.0	0	0.0
Total	100.0	33	100.0	100.0	16	100.0

The data indicates First Bank makes loans to individuals of all income levels. For 2003, 12 percent of HMDA loans were made to low-income borrowers and 15 percent were made to moderate-income borrowers. In 2004, 6.3 percent of loans were made to low-income borrowers and also to moderate-income borrowers. These results compared favorably to the geographic distribution of families, with 23 percent low- and 16 percent moderate-income in 2003 and 23 and 16 percent low- and moderate-income, respectively, in 2004. The bank's performance is commended because, with 14 percent of families in the assessment area living below the poverty level, the ability to originate mortgage loans is difficult without special assistance and incentive programs for these borrowers.

The following table presents the distribution by borrower income of the consumer motor vehicle loans inside the AA.

DISTRIBUTION OF CONSUMER MOTOR VEHICLE LOANS BY MEDIAN FAMILY INCOME LEVEL

	LOW	MODERATE	MIDDLE	UPPER	TOTAL
Number of Loans	18	13	20	9	60
% of Number	30.0	21.7	33.3	15.0	100.0
\$ Volume ('000s)	165	257	273	153	848
% of \$ Volume	19.5	30.3	32.2	18.0	100.0
Percent of Families	23.0	16.3	18.0	42.7	100.0

Overall, of the 60 motor vehicle loans originated inside the AA, over half were to low- and moderate-income borrowers. The allocation by income level was 30 percent to low-income borrowers and 22 percent to moderate-income borrowers. This allotment exceeds the assessment area percentage, with 39 percent of low- and moderate-income families living in the assessment area and indicates the bank is serving low-and moderate-income consumers in its AA.

Another indicator of the bank's commitment to meeting community credit needs is the large volume of small dollar consumer loans extended. As demonstrated in the following table, 50 percent of the motor vehicle loans originated during the review period was for loan amounts of \$10,000 or less.

CONSUMER LOANS BY LOAN AMOUNT		
Loan Amount	Number of Loans	Percent
\$1,000 - \$5,000	20	33.3
\$5,001 - \$10,000	10	16.7
\$10,001 - \$15,000	8	13.3
\$15,001 - \$20,000	5	8.3
\$20,001 - \$25,000	5	8.3
\$25,001 - \$43,000	12	20.1
Total	60	100.0

Overall, the bank's performance in this category exceeds expectations for reasonable performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The overall geographic distribution of HMDA-related and consumer motor vehicle loans reflected excellent loan penetration in low- and moderate-income geographies and exceeds the expectations for reasonable performance. The table below details the bank's lending throughout the assessment area.

DISTRIBUTION OF LENDING BY CENSUS TRACT INCOME LEVEL					
CENSUS TRACT	2003 TRACTS	2003 HMDA	2004 TRACTS	2004 HMDA	MOTOR VEHICLE

INCOME LEVEL	#	%	#	%	#	%	#	%	#	%
Low	1	2.9	0	0.0	1	2.9	0	0.0	1	1.7
Moderate	12	34.3	15	45.5	10	28.6	6	37.5	18	30.0
Middle	13	37.0	8	24.2	16	45.6	8	50.0	26	43.3
Upper	8	22.9	9	27.3	7	20.0	2	12.5	15	25.0
Unknown	1	2.9	1	3.0	1	2.9	0	0.0	0	0.0
TOTAL	35	100.0	33	100.0	35	100.0	16	100.0	60	100.0

Although no HMDA loans were made in the low-income census tract, the bank's performance is still considered excellent. Motor vehicle loans are the largest credit products by type of the bank's portfolio. The lack of performance in low-income tracts is explained by the high number and percentage of rental and vacant units, at 98.7 percent, compared to the owner-occupied units at 1.3 percent. The availability of home loan financing opportunities is very limited. In addition, the lack of low- and moderate-income tracts in Burleson County restricts the available lending opportunities. However, levels of lending in moderate-income tracts exceed the AA demographics. In 2003, the bank originated almost 46 percent of loans in moderate-income tracts, compared to 34 percent of the tracts that were moderate-income. In 2004, about 38 percent of loans were made in moderate-income geographies, compared to 29 percent of the tracts that were moderate-income. Furthermore, 38 percent of families in the low-income tract live below the poverty level.

COMMUNITY DEVELOPMENT QUALIFIED INVESTMENTS AND SERVICES

The bank's categorization as a small institution under CRA does not require that it be evaluated under the Investment and Services Tests. However, the bank requested examiners review its performance in this area. Management is commended for its commitment to CRA and its efforts in meeting not only the credit needs in its communities, but also the services and investment needs. First Bank made a \$25,000 equity investment in the Brazos Valley Community Development Corporation, Inc. (BVDC) in 2001. The BVDC is a multi-bank community development corporation operated by the Brazos Valley Affordable Housing Corporation. The BVDC makes residential loans to low- and moderate-income individuals who would not otherwise qualify for a traditional loan. Additionally, \$700 was donated to other local community organizations providing social services for low- and moderate-income people and areas.

First Bank's officers serve in leadership roles on various Boards within the communities, such as the Brazos Valley Council of Governments, Downtown Bryan Economic Development Association, and CASA. In these positions, they provide technical assistance to community groups specializing in affordable housing, economic development and small business lending and other services to low- and moderate-income individuals and/or geographies. Staff members also serve as volunteers in various school districts. Additionally, a staff member is a certified instructor for the FDIC Smart Money Program.

RESPONSE TO COMPLAINTS

The bank has not received any CRA-related complaints since the previous evaluation.

COMPLIANCE WITH ANTI-DISCRIMINATION LAWS (ECOA, FHA OR HMDA)

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified during the concurrent Consumer Affairs Examination.

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small, relatively permanent statistical subdivision of a county or statistically equivalent entity, delineated for data presentation purposes by a local group of census data users or the geographic staff of a regional census center in accordance with U.S. Census Bureau guidelines. Designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions at the time they are established, census tracts generally contain between 1,000 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries are delineated with the intention of being stable over many decades, so they generally follow relatively permanent visible features. However, they may follow governmental unit boundaries and other invisible features in some instances; the boundary of a state or county (or statistically equivalent entity) is always a census tract boundary.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

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).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

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.

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.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Metropolitan Statistical Area (MSA): A core area, as defined by the United States Office of Management and Budget, with at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties. MSAs are defined in terms of whole counties.

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 percent 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 percent and less than 120 percent, in the case of a geography

Multifamily: Refers to a residential structure that contains five or more units.

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.

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.