

PUBLIC DISCLOSURE

January 10, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank of Matador
RSSD#: 367552

1025 Main Street
Matador, Texas 79244

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.

TABLE OF CONTENTS

Institution's CRA Rating	1
Description of Institution	1
Description of Assessment Area	2
Conclusions	4
Glossary	8

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

The performance of First State Bank of Matador, Matador, Texas (FSB) in originating loans to meet the credit needs of all segments of its community is rated Satisfactory for the period covered by this evaluation. The bank's loan-to-deposit ratio (LTD) is considered reasonable given the bank's size, demographics, capacity and constraints, the assessment area credit needs, and the economic factors, including safe and sound banking practices. A majority of loans originated inside the bank's assessment area, including 76% of the number and 45% of the dollar volume of loans reviewed. In addition, lending to borrowers of different income levels and businesses of different sizes appears reasonable.

DESCRIPTION OF INSTITUTION

FSB is a subsidiary of Baylor Bancshares, Inc. (Baylor), through its wholly owned Delaware subsidiary, Baylor Delaware Corporation. The Delaware subsidiary owns 83 percent of Matador Bancshares, Inc., which owns 95 percent of FSB. Baylor owns five Texas community banks and a mortgage company, Baylor Mortgage Company, Seymour, Texas. The following table provides data on the four banks affiliated with FSB:

BANK	TOTAL ASSETS*	REGULATOR
Citizens State Bank Princeton, Texas	\$72,157	FRB
Memphis State Bank Memphis, Texas	\$36,024	FRB
First National Bank Seymour, Texas	\$28,790	OCC
First National Bank Whitney, Texas	\$51,665	OCC

*In thousands as of 9/30/2004.

FSB is a small, conservatively run retail bank offering basic banking services in rural west Texas, approximately 85 miles northeast of Lubbock. The bank's only office is located at 1025 Main Street, Matador, Texas 79244. Loan products include agricultural, commercial, direct auto, personal, and college loans. Residential mortgage loans, mobile home loans, and open-end credit are not offered. Deposit products are limited to regular checking accounts and non-renewable certificates of deposit.

As of September 30, 2004, FSB had total assets of \$12 million, gross loans of \$3 million, and shareholders equity of \$1 million. The following table reflects the loan portfolio mix:

PRODUCT	9/30/2004 \$(000)	% OF LOANS	9/30/2003 \$(000)	% OF LOANS
<u>Real Estate</u>				
Agriculture	295	9.7	112	4.2
Commercial	4	0.1	12	0.4
Total Real Estate	299	9.8	124	4.6
Agricultural	807	26.5	592	22.0
Commercial and Industrial	1,582	51.8	1,576	58.7
Consumer	325	10.7	359	13.4
State and Political	25	0.8	30	1.1
Other	12	0.4	5	0.2
Gross Loans	3,050	100.0	2,686	100.0

Commercial and industrial loans are the largest loan product by dollar volume. The portfolio has grown almost 14 percent over the past year, primarily as a result of the bank's decision to purchase government guaranteed loans to improve loan income and diversify the risk in the portfolio. Government guaranteed loans represented 34 percent of total loans as of July 2003.

There are no legal or financial impediments that would inhibit the bank's ability to meet the credit needs of its community, consistent with its business strategy, size, resources, and local economic climate. FSB received a rating of "Satisfactory" at its last performance evaluation of November 13, 2000, performed by this Reserve Bank.

DESCRIPTION OF MOTLEY COUNTY

Motley County is located in the Rolling Plains region of Northwest Texas. It is bordered on the east by Cottle County, on the south by Dickens County, on the west by Floyd County, and on the north by Briscoe and Hill Counties. The City of Matador is the county seat of Motley County and it is considered the largest city in the county. The economy of Motley County is driven by agricultural products. Those products include; cattle, cow-calf & stocker operations, cotton, peanuts, wheat and hay.

As of 2000 Census, Motley County consists of one middle-income census tract. The U.S. Census Bureau estimated the 2003 population of Motley County at 1,304. According to this estimate, the county has lost 228 residents or approximately 15 percent of its population since 1990. There are 593 households and 423 families in the assessment area, approximately 23 percent of which are low-income and 19 percent moderate-income according to the 2000 census.

The Texas Workforce Commission on September 2004 reported a labor force of 611 and an unemployment rate of 2.8 percent for Motley County. During the fourth quarter of 2003, there were 77 firms operating in the county with an average weekly wage of \$376 as compared to a statewide weekly wage of \$754. The average number of people employed during this reporting period totaled 397. Top employers in Motley County consist of: Allsups Convenience Stores,

Concepts of Care, Koch Agriculture Company, Motley County Hospital District, Motley County ISD, Rinker Materials Corporation, Roaring Springs Ranch Club, Texas Department of Transportation and Thacker Investments Incorporated.

The following table presents selected demographics for the assessment area, compared to the averages for non-metropolitan areas of Texas:

DEMOGRAPHIC INFORMATION	MOTLEY COUNTY	STATE NON-METROPOLITAN AREAS
Population	1,304	3,159,940
Number of Families	423	832,894
Percent Low-Income Families	22.7	21.2
Percent Moderate-Income Families	19.2	17.6
Percent Middle-Income Families	24.6	20.8
Percent Upper-Income Families	33.5	41.4
Percent of Families Below Poverty Level	14.0	14.5
Number of Housing Units	839	1,381,471
Percent Owner-Occupied	55.9	61.3
Percent of Housing Rented	16.3	20.9
Median Housing Value	\$31,700	\$53,131

Source: U.S. Census 2000

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance was evaluated using the CRA small bank performance standards. All loans made from September 30, 2003, to September 30, 2004, were used to conduct this evaluation. Because of the volume of loans made by the bank in its assessment area, it was not meaningful to separate the loans by category. However, most of the bank's loan originations consist of small dollar loans. In July 2002 FSB, sent letters to all Motley County business owner-operators soliciting loans. This effort was not successful; management indicated that no loans were known to have been originated through this effort.

Small Bank CRA performance standards evaluate:

- average loan-to-deposit ratio since the last CRA evaluation;
- the overall level of lending within the assessment area;
- the bank's lending to borrowers of different income levels and businesses and farms of different sizes;
- the bank's geographic distribution of loans within its assessment area; and,
- the bank's response to any written complaints since the last examination.

Each standard is viewed as part of an overall picture of the bank's performance in meeting the credit needs of its delineated assessment area. The bank's performance evaluation is rated satisfactory.

LOAN-TO-DEPOSIT RATIO

The bank's LTD ratio is adequate given the bank's size, financial condition and assessment area credit needs. FSB's LTD ratio as of September 30, 2004, was 29 percent and the quarterly average since the last CRA evaluation is 25 percent. The bank's LTD ratio has historically been low and the bank has been encouraged to review and assess the ratio in past assessments. As indicated by past assessments and the community contacts during this assessment, there is minimal loan demand in the county. The current and average ratio noted above represents a significant increase since the previous assessment when the quarterly average was 15 percent. The increase is attributed primarily to the purchase of government guaranteed loans outside of the assessment area.

FSB is the only FDIC-Insured financial institution in Motley County as of June 30, 2004. Since there are no other financial institutions in the assessment area, the LTD ratios for similarly situated financial institutions in the contiguous counties of Dickens, Briscoe, Cottle, Childress and Floyd are presented in the following table:

BANK	COUNTY	TOTAL ASSETS	LTD RATIO	QUARTERLY
-------------	---------------	---------------------	------------------	------------------

		IN ('000S) 9/30/2004	9/30/2004	AVG. LTD RATIO
First State Bank Matador, Texas	Motley	11,545	28.8	24.5
Spur Security Bank Spur, Texas	Dickens	28,028	42.3	42.6
First National Bank Quitaque, TX	Briscoe	35,316	59.4	49.5
First National Bank Paducah, TX	Cottle	43,947	31.9	32.5
First Bank & Trust Co. Childress, TX	Childress	60,164	104.3	80.5
First National Bank Floydada, TX	Floyd	72,721	54.2	42.4

LENDING IN ASSESSMENT AREA

A majority of loans originated were in the bank's assessment area. Overall, 76% of loans by number volume and 45% by dollar volume were in the bank's assessment area. FSB's lending performance was assessed by analyzing the 202 loans originated between September 2003 and September 30, 2004.

ASSESSMENT AREA CONCETRATION				
LOCATION	NUMBER	PERCENT OF NUMBER	DOLLAR AMOUNT	PERCENT OF DOLLAR VOLUME
Within AA	153	75.7%	\$1,145,107	45.4%
Outside AA	49	24.3%	\$1,378,515	54.6%
Total	202	100.0%	\$2,523,622	100.0%

The remaining analyses will be performed using only those loans located within the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

TEXAS NON-METROPOLITAN HUD-ADJUSTED MEDIAN FAMILY INCOME		
INCOME LEVEL	2003	2004
Low income	< \$20,600	< \$21,000
Moderate income	\$20,600 < \$32,960	\$21,000 < \$33,600
Middle income	\$32,960 < \$49,440	\$33,500 < \$50,400
Upper income	\$49,440 and up	\$50,400 and up
Median Family Income	\$41,200	\$42,000

FSB does not use written applications, and does not use applicant income as part of its underwriting criteria for either consumer or commercial loan applications. The lack of data served as an impediment to further analysis under this assessment section. However, while not conclusive, the use of loan amount as a proxy for borrower income level and business size gives an indication of a bank’s performance in this area.

The following table describes the bank’s lending inside its assessment area by size of loan:

Distribution by Loan Amount			
Loan Amount	#Loans	% of Total # of Loans	
\$100-\$499	5	3.3	32.7%
\$500 - \$999	14	9.1	
\$1,000 - \$1,499	18	11.8	
\$1,500 - \$1,999	13	8.5	
\$2,000 - \$2,499	9	5.9	28.7%
\$2,500 - \$2,999	8	5.2	
\$3,000 - \$3,499	8	5.2	
\$3,500 - \$3,999	4	2.6	
\$4,000 - \$4,499	9	5.9	
\$4,500 - \$5,000	6	3.9	
Subtotal	94	61.4	
\$5,001 and up	59	38.6	38.6%
Total	153	100.0	100%

Given that approximately 61 percent of loans made are for relatively small amounts, it appears the bank is adequately meeting the credit needs of the assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS

A meaningful analysis of the bank's geographic distribution of loans within the assessment area could not be performed since the assessment area was comprised of one middle-income census tract. Therefore, this performance criterion was not evaluated.

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

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.

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.

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.