

PUBLIC DISCLOSURE

January 30, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank of Mineral Wells
RSSD 238755

101 SE 1st Avenue
Mineral Wells, TX 76067

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
Scope of Examination	1
Description of Institution	1
Description of Assessment Areas	3
Conclusions With Respect to Performance Criteria	9
Appendix A – Loan Distribution Tables for Palo Pinto County.....	15
Appendix B – Loan Distribution Tables for Parker County.....	19
Glossary	23

INSTITUTION'S COMMUNITY REINVESTMENT ACT (CRA) RATING: This institution is rated Satisfactory.

The factors supporting this rating include:

- a majority of consumer and small business loans, 78% of the number and 51% of the dollar volume, originated within the institution's assessment areas;
- a reasonable loan-to-deposit ratio (LTD) of 68.2% as of September 30, 2011, with a quarterly average of 66.5% since the previous CRA evaluation, given the institutions's resources and competition in the assessment areas;
- a reasonable penetration of loans among individuals of different income levels and businesses of different sizes;
- a reasonable dispersion of loans throughout the institution's assessment areas.

SCOPE OF EXAMINATION

First State Bank of Mineral Wells' (bank) lending performance with respect to the CRA was assessed by analyzing a sample of 46 commercial loans totaling \$4.3 million and 62 consumer loans totaling \$538 thousand originated by the bank in 2011.

The evaluation was conducted using the CRA small bank performance standards. 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 written complaints with respect to CRA performance in the assessment area.

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.

DESCRIPTION OF INSTITUTION

The bank is a small community bank which operates three banking locations in Palo Pinto County, Texas and one banking location in Parker County, Texas. The bank offers traditional banking products including consumer loans, commercial loans, agriculture loans, and deposit products.

The following tables detail the bank's office locations.

RETAIL BRANCHES			
BRANCH ADDRESS	CENSUS TRACT/ INCOME LEVEL	LOBBY HOURS	MOTOR BANK HOURS
Mineral Wells Main Bank 101 SE 1 st Ave Mineral Wells, TX 76067	Palo Pinto 9808.00 Moderate	Mon.-Thurs. 9 am – 4 pm Friday 9 am – 6 pm	None
Mineral Wells Drive-Thru 400 E. Hubbard Mineral Wells, TX 76067	Palo Pinto 9808.00 Moderate	None	Mon.-Fri. 7:30 am – 6 pm Saturday 9 am – 12 pm
Possum Kingdom Lake 1404 Park Road 36 Graford, TX 76449	Palo Pinto 9801.00 Middle	Mon. – Thurs. 9 am – 3 pm Friday 9 am – 6 pm	None
Weatherford 1901 Wall Street Weatherford, TX 76086	Parker 1402.00 Middle	Mon. – Fri. 8 am – 5 pm	Mon. – Fri. 7:30 am – 5:30 pm

As of September 30, 2011, the bank reported total assets of approximately \$110.7 million, gross loans of \$67.6 million, total deposits of \$98 million, and a net loan-to-deposit ratio of 68.2%. The following table reflects the loan portfolio mix:

PRODUCT	DATE \$(000's)	% OF LOANS
<u>Real Estate</u>		
1-4 Family Res Construction Lns (03/2008)	1,377	2.04
Other Const Lns & Land Dev & Other (03/2008)	1,940	2.87
Farm Land	6,065	8.98
1-4 Family – Revolving	523	0.77
1-4 Family Res Secured by First Liens	18,958	28.06
1-4 Family Res Secured by Junior Liens	43	0.06
Multifamily	463	0.69
Lns Secured Owner Occupd NonFrm NonRes (03/2008)	15,924	23.57
Lns Secured by Other NonFrm NonRes (03/2008)	11,915	17.63
Total Real Estate	57,208	84.66
Agricultural	670	0.99
Commercial and Industrial	7,598	11.24
Consumer	2,052	3.04
Other	44	0.07
Gross Loans	67,572	100.00

*Percentage may not equal 100 due to rounding.

The bank's ability to meet various credit needs of the community has not been hampered by its capacity to lend, its financial condition and size, product offerings, prior performance, legal impediments, or other factors. The bank received a Satisfactory rating on its last CRA performance evaluation dated January 28, 2008 performed by the Federal Reserve Bank of Dallas.

DESCRIPTION OF THE ASSESSMENT AREAS

The bank's assessment areas consist of non-metropolitan Palo Pinto County and Parker County, part of the Fort Worth-Arlington, TX Metropolitan Division (MD). Palo Pinto and Parker Counties are contiguous. The bank's assessment areas changed when it opened the Weatherford branch on January 14, 2011.

Demographic and economic information impacting the bank's performance context are discussed in each assessment area. Information was obtained from publicly available sources including the U.S. Commerce's Bureau of the Census, 2000; the U.S. Department of Housing and Urban Development; the U.S. Department of Labor; Texas Workforce Commission; and Dun & Bradstreet.

The greatest weight is placed on the bank's activities in the Palo Pinto County assessment area. This assessment area contains the majority of the bank's deposits, loans, and branches.

DESCRIPTION OF PALO PINTO COUNTY

This assessment area consists of Palo Pinto County, Texas. Mineral Wells is located approximately 35 miles west of Fort Worth, Texas. The 2010 estimated population for the Palo Pinto County is 28,111. The population grew 4.0% between 2000 and 2010. The city of Palo Pinto is the Palo Pinto County seat. Other cities include Mineral Wells, Graford, and Gordon.

As of the assessment date, the bank operated three retail branches in the assessment area. The Palo Pinto assessment area branches contained \$77.5 million in deposits at June 30, 2011¹. The bank ranks second in deposit market share out of nine FDIC-insured financial institutions operating in the Palo Pinto banking market. The deposits in the bank's three branches represented 16.2% of the total deposits in FDIC-insured financial institutions. First Financial Bank NA dominates the market, with 34.7% of total deposits.

The following table details selected characteristics of the assessment area.

¹ Data provided by the FDIC's annual summary of deposits.

Assessment Area Demographics

Assessment Area: Palo Pinto County

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,377	18.4
Moderate-income	2	22.2	1,378	18.4	366	26.6	1,405	18.8
Middle-income	7	77.8	6,115	81.6	552	9.0	1,686	22.5
Upper-income	0	0.0	0	0.0	0	0.0	3,025	40.4
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	9	100.0	7,493	100.0	918	12.3	7,493	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	2,272	1,237	16.2	54.4	774	34.1	261	11.5
Middle-income	11,830	6,383	83.8	54.0	2,200	18.6	3,247	27.4
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	14,102	7,620	100.0	54.0	2,974	21.1	3,508	24.9
	Total Businesses by Tract	Businesses 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	320	22.3	292	22.1	9	18.8	19	28.4
Middle-income	1,116	77.7	1,029	77.9	39	81.3	48	71.6
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	1,436	100.0	1,321	100.0	48	100.0	67	100.0
Percentage of Total Businesses:				92.0		3.3		4.7
	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	3	3.7	3	3.7	0	0.0	0	0.0
Middle-income	79	96.3	79	96.3	0	0.0	0	0.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	82	100.0	82	100.0	0	.0	0	.0
Percentage of Total Farms:				100.0		.0		.0

Based on 2010 D&B information according to 2000 Census Boundaries.

Income Characteristics: As of the 2000 census, the assessment area contained two moderate-income and seven middle-income census tracts. Palo Pinto County does not have any low-income or upper-income census tracts. Nineteen percent of households are located in moderate-income tracts while 81% of the households are in middle-income tracts.

Approximately 18.4% of the families are low-income, 18.8% are moderate-income, 22.5% are middle-income, and 40.4% are upper-income. The 12.3% poverty rate is comparable to the state average at 12.0%. The Texas non-metropolitan median family income for 2011 is depicted in the table below.

Income Level	2011 Non-Metropolitan Area
Median Income	\$48,600
Low-income	\$0 <\$24,300
Moderate-income	\$24,300<\$38,880
Middle-income	\$38,880<\$58,320
Upper-income	\$58,320 and up

Housing: There are approximately 14,102 housing units in the assessment area. Approximately 54% were owner-occupied, 21% were rental units, and 25% were vacant units. The median housing value in the assessment area was \$46,949, which is lower than the median housing value of the state of Texas at \$77,800. The median age of housing in the assessment area is 32 years old while the median age of housing for the state is 23 years old.

Labor, Employment and Economic Characteristics: The area economy includes a variety of businesses from oil and gas equipment manufacturers to autopilot makers and cable producers. Some of the larger employers in the area consist of Mineral Wells ISD, Palo Pinto General Hospital, Peco-Facet, and Walmart.

The following table provides unemployment rates for the assessment area and the state of Texas.

UNEMPLOYMENT RATES FOR YEARS 2010-2011 (Not Seasonally Adjusted)		
Area	2010	2011 (November)
Palo Pinto County	7.9	7.0
State of Texas	8.2	7.5

According to Dun & Bradstreet, there are 1,436 businesses in the assessment area. The majority are considered small, with approximately 92% of businesses reporting gross annual revenues of \$1 million or less.

Community Contacts and Credit Needs: Contacts were made with community leaders working with charitable foundations. They stated that the credit needs in the community include loans to low-income people and small dollar loans new businesses. In addition, there are

opportunities for financial institutions to participate in reinvestment activities such as food donations and teaching financial literacy courses.

DESCRIPTION OF PARKER COUNTY

This assessment area consists of Parker County, Texas. Parker County is a part of the Fort Worth-Arlington, TX Metropolitan Division (MD). The 2010 estimated population for Parker County is 116,927. The population grew 32.1% between 2000 and 2010. The city of Weatherford is the Parker County seat. Other cities include Aledo, Azle, and Brock.

As of the assessment date, the bank operated one retail branch in the assessment area. The Parker County assessment area branch contained \$16.7 million in deposits at June 30, 2011². The bank ranks 15th in deposit market share out of 28 FDIC-insured financial institutions operating in the Parker County banking market. The deposits in the bank's branch represented 1.3% of the total deposits in FDIC-insured financial institutions. First Financial Bank NA dominates the market, with 24.3% of total deposits, followed by BBVA Compass Bank and PlainsCapital Bank.

The following table details selected characteristics of the assessment area.

² Data provided by the FDIC's annual summary of deposits.

Assessment Area Demographics

Assessment Area: Parker County

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	4,571	18.7
Moderate-income	1	7.7	1,535	6.3	125	8.1	4,893	20.0
Middle-income	10	76.9	17,711	72.4	1,159	6.5	5,912	24.2
Upper-income	2	15.4	5,215	21.3	153	2.9	9,085	37.1
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	13	100.0	24,461	100.0	1,437	5.9	24,461	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	2,320	1,479	5.9	63.8	676	29.1	165	7.1
Middle-income	25,146	18,040	71.9	71.7	4,811	19.1	2,295	9.1
Upper-income	6,618	5,562	22.2	84.0	563	8.5	493	7.4
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	34,084	25,081	100.0	73.6	6,050	17.8	2,953	8.7
	Total Businesses by Tract	Businesses 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	291	4.8	269	4.8	15	7.5	7	3.4
Middle-income	4,182	69.0	3,899	68.9	132	66.0	151	73.3
Upper-income	1,588	26.2	1,487	26.3	53	26.5	48	23.3
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	6,061	100.0	5,655	100.0	200	100.0	206	100.0
Percentage of Total Businesses:				93.3		3.3		3.4
	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	5	1.3	5	1.3	0	0.0	0	0.0
Middle-income	333	83.9	330	84.0	2	66.7	1	100.0
Upper-income	59	14.9	58	14.8	1	33.3	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	397	100.0	393	100.0	3	100.0	1	100.0
Percentage of Total Farms:				99.0		.8		.3

Based on 2010 D&B information according to 2000 Census Boundaries.

Income Characteristics: As of the 2000 census, the assessment area contained one moderate-income, ten middle-income, and two upper-income census tracts. Parker County does not have any low-income census tracts.

Approximately 18.7% of the families are low-income, 20.0% are moderate-income, 24.2% are middle-income, and 37.1% are upper-income. Further, 6.9% of households are in moderate-income tracts, 73.5% in middle-income tracts, and 19.6% in upper-income tracts. The 5.9% poverty rate is significantly lower than the state average at 12.0%. The HUD median family income for the Fort Worth-Arlington, Texas for 2011 is depicted in the table below:

INCOME LEVEL	2011 Fort Worth-Arlington, Texas MD
Median Income	\$68,200
Low-income	\$0 < \$34,100
Moderate-income	\$34,100 < \$54,560
Middle-income	\$54,560 < \$81,840
Upper-income	\$81,840 and up

Housing: There are approximately 34,084 housing units in the assessment area. Approximately 73.6% were owner-occupied, 17.8% were rental units, and 8.7% were vacant units. The median housing value in the assessment area was \$88,247, which is higher than the median housing value of the state of Texas at \$77,800. The median age of housing in the assessment area is 19 years old while the median age of housing for the state is 23 years old.

Labor, Employment and Economic Characteristics: The area economy includes a variety of businesses. Some of the larger employers in the area consist of Campbell Health System, Walmart, county and city government, school districts, and Acme Brick Company.

The following table provides unemployment rates for the assessment area and the state of Texas.

UNEMPLOYMENT RATES FOR YEARS 2010-2011 (Not Seasonally Adjusted)		
Area	2010	2011 (November)
Parker County	7.7	6.5
State of Texas	8.2	7.5

According to Dun & Bradstreet, there are 6,061 businesses in the assessment area. The majority are considered small, with approximately 93.3% of businesses reporting gross annual revenues of \$1 million or less.

Community Contacts and Credit Needs: Contact was made with community leaders working in economic development. These contacts stated that the credit needs in the community include affordable housing and smaller dollar business loans. In addition, there are opportunities for

financial institutions to participate in reinvestment activities such as financial literacy courses and helping citizens pay their utility bills.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The general purpose of CRA is to encourage banks to meet the credit needs in their assessment areas while operating in a safe and sound manner. To gain an understanding of the bank's lending activity, the LTD ratio is reviewed to approximate the credit demand of the assessment areas and assess the bank's willingness to meet the community's demand for credit.

The bank's net LTD ratio is considered reasonable, given the bank's size and financial condition, the credit needs of the assessment areas, and the competitive local banking environment. As of September 30, 2011, the net LTD ratio was 68.2%, and the quarterly average since the previous evaluation was 66.5%.

To better understand the bank's performance in relation to its assessment areas, a comparison of similarly situated local banks was performed. These banks were chosen for analysis based on their proximity and asset size. As noted, the bank's LTD ratios are similar to the majority of its peers and reflect favorably upon the bank's efforts to meet the credit needs of its community. No ranking is implied in the order of the competitor banks listed below.

BANK	COUNTY	TOTAL ASSETS IN THOUSANDS 09/30/2011	LTD RATIO 09/30/2011	QUARTERLY* AVERAGE LTD RATIO
First State Bank of Mineral Wells Mineral Wells, Texas	Palo Pinto	109,165	68.2	66.5
First Financial Bank NA Mineral Wells, Texas	Palo Pinto	205,143	68.0	70.3
Titan Bank NA, Mineral Wells, Texas	Palo Pinto	55,874	62.6	49.1
First Financial Bank NA Weatherford, TX	Parker	403,252	44.8	48.6
First National Bank, Weatherford, TX	Parker	197,518	77.7	89.7

*Based on 16 quarters since the last CRA performance evaluation.

LENDING IN ASSESSMENT AREAS

A majority of the bank’s loans were originated inside its assessment areas. As shown in the table below, the bank extended approximately 78% of all loans, including 78% of the number and 51% of the dollar volume, within the assessment areas. The relatively lower dollar volume of loans in the assessment areas attributed to several larger dollar commercial loans located outside the assessment areas.

ASSESSMENT AREA CONCENTRATION								
LOAN TYPE	INSIDE ASSESSMENT AREAS				OUTSIDE ASSESSMENT AREAS			
	#	%	\$000's	% of \$	#	%	\$000's	% of \$
Small Business	30	65.1	1,974	46.2	16	34.0	2,298	53.1
Consumer	54	87.1	480	89.1	8	12.9	59	10.9
TOTAL	84	77.8	2,454	51.0	24	22.0	2,357	48.4

*Percentage may not equal 100 due to rounding.

The remaining analysis will be based on loans made inside the bank’s assessment areas.

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

The distribution of lending based on income and revenue levels of the borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. A majority of the loans were made to low- and moderate-income (LMI) individuals and businesses with gross annual revenues under \$1 million. Data supporting this analysis can be seen in detail in the separate assessment area discussions.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank’s consumer and business loans by the income level of geographies is reasonable. This conclusion is based on the bank’s performance in each assessment area in comparison to demographic data. Loans were generally made in close proximity to the bank’s branches, and there were no conspicuous gaps or anomalies in the lending patterns. Data supporting this analysis can be seen in detail in the separate assessment area discussions.

RESPONSE TO COMPLAINTS

There were no complaints related to CRA during the review period. Consequently, the bank’s performance in responding to complaints was not considered in evaluating its overall CRA performance.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. Established policies and procedures are designed to ensure ongoing compliance with applicable laws and regulations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

PALO PINTO COUNTY ASSESSMENT AREA

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

The distribution of lending based on income and revenue levels of the borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. Greater weight was given to the bank's consumer lending in this assessment area since it represented the largest amount of the bank's lending. Detailed information concerning the bank's lending in the assessment area can be found in the tables located in Appendix A.

Consumer Lending

The analysis of consumer loans by median family income reflects a reasonable distribution of consumer loans to LMI households. Based on 2000 Census information, 23% of households in the assessment area are low-income, 17% are moderate-income, 18% are middle-income and 43% are upper-income. The bank originated 23.1% of its consumer loans to low-income borrowers and 15.4% of its consumer loans to moderate-income borrowers which approximates the percentage of households in these income categories. Lending to middle-and upper-income borrowers also approximates the percent of households in those income levels.

Commercial Lending

The distribution of commercial loans by gross annual revenues reflects reasonable responsiveness to the credit needs of the small businesses in the assessment area. Based on the business geographic data, there are 1,436 businesses within the assessment area. Of this number, 92.0% of the businesses reported revenues of less than or equal to \$1 million. Approximately 83% of the sampled commercial loans were made to businesses with gross annual revenues of \$1 million or less. The bank's performance compares favorably to the aggregate of larger banks required to report lending data annually. The aggregate lendings made only 35% of their loans to small businesses.

Another way to gauge the bank's small business lending performance is to review the data by loan amount. Small businesses typically require smaller dollar credits. Community contacts indicated that small dollar loans are needed. In this regard, it is noted that 65.2% of the bank's

commercial loans were made in loan amounts of \$25,000 or less. Further, 87% of the loans were amounts of \$100,000 or less. Aggregate lenders made approximately 98% of their loans in amounts of \$100,000 or less.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution by the income level of geographies within the assessment area is reasonable. The bank's lending distribution was compared to performance context factors including the distribution of the assessment area population, households, and businesses among the two geographic income levels of the area. Performance was reasonable with the distribution of consumer loans closely approximating the dispersion of people and businesses in the assessment area. More weight was given to consumer loans because of the larger number of loans. Loans were generally made in close proximity to the bank's branches and there were no conspicuous gaps or anomalies in the lending patterns.

Consumer Lending

Palo Pinto County contains two moderate- and seven middle-income tracts. Over 15% of consumer loans were located in moderate-income tracts which compares reasonably with the 19% of households located in the moderate-income tracts. Additionally, almost 85% of consumer loans were made in middle-income tracts which also compares favorably with the 81% of households who live in middle-income census tracts.

Commercial Lending

The geographic distribution of the bank's commercial loans reflects reasonable dispersion throughout the assessment area. Of the 23 loans in the assessment area, 3 or 13% were located in moderate-income census tracts compared to the 22% of businesses located in the moderate-income census tracts. Additionally, 20 or 87% were located in middle-income census tracts, where 78% of the businesses are located. Aggregate lenders reported 15% of their loans in the moderate-income tracts.

PARKER COUNTY ASSESSMENT AREA

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

The distribution of lending based on income and revenue levels of the borrowers reflects reasonable penetration among individuals of different income levels and businesses and farms of different sizes.

Consumer Lending

The analysis of consumer loans by median family income reflects a reasonable distribution of consumer loans. Based on 2000 Census information, 21% of households in the assessment area are low income, 18% are moderate-income, 21% are middle-income, and 40% are upper-income. Of the 15 consumer loans sampled within the assessment area 20.0% were originated to low-income borrowers, 13.3% were to moderate-income borrowers, 33.3% were to middle-income borrower, and 33.3% were to upper-income borrowers.

Commercial Lending

The distribution of commercial loans by gross annual revenues reflects reasonable responsiveness to the credit needs of the small businesses in the assessment area. Based on the business geographic data, there are 6,061 businesses within the assessment area. Of this number, 93.3% of the businesses reported revenues of less than or equal to \$1 million. Of the bank's sampled loans, almost 72% of its commercial loans were made to businesses with gross annual revenues of \$1 million or less. In comparison, aggregate lenders only reported making 48% of their loans to small businesses.

Another way to gauge the bank's small business lending performance is to review the data by loan amount. Small businesses typically require smaller dollar credits. In this regard, it is noted that 50% of the bank's commercial loans were made in loan amounts of \$25,000 or less. Further, 71% of the sampled loans were for amounts of \$100,000 or less. While below the 95% of loans of \$100,000 or less reported by the aggregate lenders, this performance is reasonable as the bank made significantly more loans to small businesses.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution by the income level of geographies within the assessment area is reasonable. The bank's lending distribution was compared to performance context factors including the distribution of the assessment area population, households, and businesses among the three geographic income levels of the area. Performance was reasonable with the distribution of consumer loans closely approximating the dispersion of people in the assessment area. Performance in relation to commercial loans is excellent with the distribution of loans exceeding the dispersion of businesses in the assessment area. Loans were generally made in close proximity to the bank's branches, and there were no conspicuous gaps or anomalies in the lending patterns.

Consumer Lending

Parker County contains one moderate- tract as well as ten middle- and two upper-income tracts. The geographic distribution of the bank's consumer loans closely approximates the distribution of the population and households throughout the assessment area. Of the 15 consumer loans

sampled, 6.7% were located in the moderate-income tract which mirrors the 6.9% of households who live in the moderate-income tract. Additionally, 86.7% of consumer loans were made in middle-income tracts which also compares favorably with the 73.5% of households who live in middle-income census tracts. Also, 6.7% of consumer loans were made in upper-income tracts, which is less than the 19.6% of households who live in upper-income census tracts.

Commercial Lending

The geographic distribution of the bank's commercial loans reflects excellent dispersion throughout the assessment area. Of the 7 loans in the assessment area, 1 or 14.3% was located in the moderate-income census tract. This compares favorably to the 4.8% of businesses located in the moderate-income census tract. Additionally, 4 or 57.1% were located in middle-income census tracts, where 68.9% of the businesses are located. Further, 2 or 28.6% were located in upper-income census tracts where 26.2% of the businesses are located. Aggregate lenders report 3% of their commercial loans in the moderate-income tract, 63% in the middle-income tracts and 2% in upper-income tracts.

Appendix A

Consumer Loan Distribution Table

Assessment Area :Palo Pinto

	CONSUMER LOANS							
	By Tract Income				By Borrower Income			
	#	%	\$(000s)	%	#	%	\$(000s)	%
	Other Loan Data							
Low	0	0.0%	0	0.0%	9	23.1%	39	14.0%
Moderate	6	15.4%	40	14.1%	6	15.4%	65	23.0%
Low/Moderate Total	6	15.4%	40	14.1%	15	38.5%	104	37.0%
Middle	33	84.6%	242	85.9%	8	20.5%	44	15.5%
Upper	0	0.0%	0	0.0%	16	41.0%	134	47.7%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	39	100.0%	281	100.0%	39	100.0%	281	100.1%
	Consumer Loan Totals							
Low	0	0.0%	0	0.0%	9	23.1%	39	14.0%
Moderate	6	15.4%	40	14.1%	6	15.4%	65	23.0%
Low/Moderate Total	6	15.4%	40	14.1%	15	38.5%	104	37.0%
Middle	33	84.6%	242	85.9%	8	20.5%	44	15.5%
Upper	0	0.0%	0	0.0%	16	41.0%	134	47.7%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	39	100.0%	281	100.0%	39	100.0%	281	100.1%

Commerical Loan Distribution Table

Assessment Area: Palo Pinto

Income Categories	SMALL BUSINESS				SMALL FARM			
	#	%	\$(000s)	%	#	%	\$(000s)	%
By Tract Income								
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate	3	13.0%	152	14.0%	0	0.0%	0	0.0%
Low/Moderate Total	3	13.0%	152	14.0%	0	0.0%	0	0.0%
Middle	20	87.0%	930	86.0%	0	0.0%	0	0.0%
Upper	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	23	100.0%	1,082	100.0%	0	0.0%	0	0.0%
By Revenue								
Total \$1 Million or Less	19	82.6%	545	50.4%	0	0.0%	0	0.0%
Over \$1 Million	3	13.0%	515	47.6%	0	0.0%	0	0.0%
Not Known	1	4.3%	22	2.0%	0	0.0%	0	0.0%
Total	23	100.0%	1,082	100.0%	0	0.0%	0	0.0%
By Loan Size								
\$100,000 or less	20	87.0%	434	40.1%	0	0.0%	0	0.0%
\$100,001 - \$250,000	2	8.7%	348	32.2%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	1	4.3%	300	27.7%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	23	100.0%	1,082	100.0%	0	0.0%	0	0.0%
By Loan Size and Revenue \$1 Million or Less								
\$100,000 or less	18	94.7%	397	72.9%	0	0.0%	0	0.0%
\$100,001 - \$250,000	1	5.3%	148	27.1%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	19	100.0%	545	100.0%	0	0.0%	0	0.0%

Aggregate Lender's Commerical Loan Distribution Table

Assessment Area: Palo Pinto County

	SMALL BUSINESS				SMALL FARM			
	#	%	\$(000S)	%	#	%	\$(000S)	%
	By Tract Income				By Tract Income			
Low	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
Moderate	40	14.7 %	1,003	20.7 %	0	0.0 %	0	0.0 %
<i>Low/Moderate Income</i>	40	14.7 %	1,003	20.7 %	0	0.0 %	0	0.0 %
Middle	214	78.4 %	3,627	74.9 %	7	70.0 %	167	19.3 %
Upper	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
Unknown	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
Tract Unknown	19	7.0 %	212	4.4 %	3	30.0 %	700	80.7 %
<i>Total</i>	273	100%	4,842	100%	10	100%	867	100%
	By Revenue				By Revenue			
Total \$1 Million or Less	96	35.2 %	1,613	33.3 %	4	40.0 %	244	28.1 %
	By Loan Size				By Loan Size			
\$100,000 or Less	267	97.8 %	2,680	55.3 %	7	70.0 %	167	19.3 %
\$100,001 - \$250,000	3	1.1 %	422	8.7 %	2	20.0 %	400	46.1 %
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	3	1.1 %	1,740	35.9 %	1	10.0 %	300	34.6 %
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
<i>Total</i>	273	100%	4,842	100%	10	100%	867	100%

Appendix B

Consumer Loan Distribution Table

Assessment Area:Parker County

	CONSUMER LOANS							
	By Tract Income				By Borrower Income			
	#	%	\$(000s)	%	#	%	\$(000s)	%
	Other Loan Data							
Low	0	0.0%	0	0.0%	3	20.0%	28	14.1%
Moderate	1	6.7%	15	7.4%	2	13.3%	15	7.6%
Low/Moderate Total	1	6.7%	15	7.4%	5	33.3%	43	21.6%
Middle	13	86.7%	154	77.5%	5	33.3%	59	29.6%
Upper	1	6.7%	30	15.1%	5	33.3%	97	49.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	15	100.0%	198	100.0%	15	100.0%	198	100.2%
	Consumer Loan Totals							
Low	0	0.0%	0	0.0%	3	20.0%	28	14.1%
Moderate	1	6.7%	15	7.4%	2	13.3%	15	7.6%
Low/Moderate Total	1	6.7%	15	7.4%	5	33.3%	43	21.6%
Middle	13	86.7%	154	77.5%	5	33.3%	59	29.6%
Upper	1	6.7%	30	15.1%	5	33.3%	97	49.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	15	100.0%	198	100.0%	15	100.0%	198	100.2%

Commercial Loan Distribution Table

Assessment Area: Parker County

Income Categories	SMALL BUSINESS				SMALL FARM			
	#	%	\$(000s)	%	#	%	\$(000s)	%
By Tract Income								
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate	1	14.3%	11	1.3%	0	0.0%	0	0.0%
Low/Moderate Total	1	14.3%	11	1.3%	0	0.0%	0	0.0%
Middle	4	57.1%	827	92.7%	0	0.0%	0	0.0%
Upper	2	28.6%	54	6.1%	0	0.0%	0	0.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	7	100.0%	892	100.0%	0	0.0%	0	0.0%
By Revenue								
Total \$1 Million or Less	5	71.4%	93	10.4%	0	0.0%	0	0.0%
Over \$1 Million	2	28.6%	799	89.6%	0	0.0%	0	0.0%
Not Known	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	7	100.0%	892	100.0%	0	0.0%	0	0.0%
By Loan Size								
\$100,000 or less	5	71.4%	93	10.4%	0	0.0%	0	0.0%
\$100,001 - \$250,000	1	14.3%	150	16.8%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	1	14.3%	649	72.8%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	7	100.0%	892	100.0%	0	0.0%	0	0.0%
By Loan Size and Revenue \$1 Million or Less								
\$100,000 or less	5	100.0%	93	100.0%	0	0.0%	0	0.0%
\$100,001 - \$250,000	0	0.0%	0	0.0%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	5	100.0%	93	100.0%	0	0.0%	0	0.0%

Aggregate Lender's Commerical Loan Distribution Table

Assessment Area: Parker County

	SMALL BUSINESS				SMALL FARM			
	#	%	\$(000S)	%	#	%	\$(000S)	%
	By Tract Income				By Tract Income			
Low	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
Moderate	55	2.8 %	2,590	4.5 %	2	7.1 %	25	2.4 %
<i>Low/Moderate Income</i>	55	2.8 %	2,590	4.5 %	2	7.1 %	25	2.4 %
Middle	1,221	63.3 %	34,529	59.5 %	24	85.7 %	999	95.7 %
Upper	573	29.7 %	19,362	33.4 %	2	7.1 %	20	1.9 %
Unknown	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
Tract Unknown	81	4.2 %	1,507	2.6 %	0	0.0 %	0	0.0 %
<i>Total</i>	<i>1,930</i>	<i>100%</i>	<i>57,988</i>	<i>100%</i>	<i>28</i>	<i>100%</i>	<i>1,044</i>	<i>100%</i>
	By Revenue				By Revenue			
Total \$1 Million or Less	930	48.2 %	28,469	49.1 %	17	60.7 %	598	57.3 %
	By Loan Size				By Loan Size			
\$100,000 or Less	1,834	95.0 %	21,995	37.9 %	25	89.3 %	370	35.4 %
\$100,001 - \$250,000	46	2.4 %	7,506	12.9 %	2	7.1 %	314	30.1 %
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	50	2.6 %	28,487	49.1 %	1	3.6 %	360	34.5 %
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
<i>Total</i>	<i>1,930</i>	<i>100%</i>	<i>57,988</i>	<i>100%</i>	<i>28</i>	<i>100%</i>	<i>1,044</i>	<i>100%</i>

GLOSSARY

Census tract: A small, relatively permanent statistical subdivision of a county. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts average about 4,000 inhabitants, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to the population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All agencies have adopted the following language: 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.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- i. Low-or moderate-income geographies;
- ii. Designated disaster areas; or
- iii. Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a) Rates of poverty, unemployment, and population loss; or
 - b) Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

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.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

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.

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.

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

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured

by nonfarm residential real estate as “small business loans” if the loans are reported on the TFR as nonmortgage, commercial loans.

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.