



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 2, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Sonora
Charter Number 5466**

**102 N. Main
Sonora, TX 76950**

**Comptroller of the Currency
San Antonio North Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, Texas 78216**

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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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

First National Bank of Sonora's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The loan to deposit ratio is reasonable, given the bank's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of loans are within the bank's AA.
- The distribution of loans reflects a reasonable dispersion throughout the AA.
- The distribution of loans reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels and businesses of different sizes.
- There are no consumer complaints with respect to the bank's CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

First National Bank of Sonora (FNB) is a community bank with \$116 million in total assets. It is wholly owned subsidiary of First Sonora Bancshares, Inc., a locally owned, one-bank holding company. The bank's main office is in Sonora, Texas, with two branch offices located on the south side of San Angelo, Texas. An automatic teller machine (ATM) is located at each banking office. The bank had four ATMs at the last evaluation. The ATM previously located at the airport was closed due to security issues for employees who were responsible for balancing and refilling cash at an offsite location. As of March 31, 2003, net loans represented 60% of the bank's total assets. The bank originates a large volume of residential loans that are sold on the secondary market. A summary of the loan portfolio is shown below.

Loan Category	\$ (000)	%
Commercial Real Estate Loans	22,747	33%
Commercial Loans	11,812	17%
Residential Real Estate Loans	18,740	28%
Consumer Loans	14,664	22%
Total	67,963	100%

There are no legal or financial circumstances that impede the bank's ability to help meet the credit needs in its AAs. FNB's previous CRA rating as of July 20, 1998 was "satisfactory." There have been no recent changes to the bank's corporate structure.

DESCRIPTION OF TOM GREEN AND SUTTON COUNTIES

The bank has designated Tom Green County and Sutton County as its two separate AAs. The assessment areas meet the requirements of the regulation and do not arbitrarily exclude low-or moderate-income geographies. The bank’s main office is in Sonora, Texas, located in Sutton County, a non-MSA area. Sutton County is comprised of two middle-income block-numbering areas (BNAs). Population in this county is approximately 4,000 according to 1990 Census information. The major industries in this rural area are oil and gas production and livestock. Competing commercial banks are limited to an office of another community bank.

Tom Green County is designated as a Metropolitan Statistical Area (MSA) and includes the city of San Angelo where two branches are located. This county consists of 23 census tracts. Two census tracts are defined as low income, five are moderate income, eleven are middle income and five are upper income. Total population in this AA is approximately 104,000. The economy is relatively diversified. Goodfellow Air Force Base, regional hospitals and the local school district are the largest employers. Competing banks in the county include numerous community and regional financial institutions.

Economic conditions in both counties remain stable. Unemployment is relatively low in both areas with a rate of 3.6% in Tom Green County and 2.5% in Sutton County. Approximately 17% of the population in Tom Green County and 20% in Sutton County are below poverty level. By income level, 20% of families are low income, 19% are moderate income, 22% are middle income, and 39% are upper income. The following table provides demographic information for the designated areas. The “MSA” column refers to Tom Green County and the “Non-MSA” column is for Sutton County.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA		
<i>Population</i>	<i>MSA</i>	<i>Non MSA</i>
Number of Families	25,657	1,128
Number of Households	35,638	1,472
<i>Geographies</i>		
Number of Census Tracts/BNA	23	2
% Low-Income Census Tracts/BNA	8.7%	0%
% Moderate-Income Census Tracts/BNA	21.7%	0%
% Middle-Income Census Tracts/BNA	47.8%	100%
% Upper-Income Census Tracts/BNA	21.7%	0%
<i>Median Family Income (MFI)</i>		
1990 Census MFI	28,571	24,585
2000 HUD-Adjusted MFI	41,300	34,700
2001 HUD-Adjusted MFI	43,400	35,800
2002 HUD-Adjusted MFI	44,400	36,100
<i>Economic Indicators</i>		
Unemployment Rate	3.6%	2.5%
2002 Median Housing Value	52,051	32,733
% of Households Below Poverty Level	16.67%	19.97%

As part of our examination we contacted the San Angelo Chamber of Commerce Economic Development Division. The contact stated the economy remains stable in Tom Green County, specifically the San Angelo area. The contact said banks in the community are very supportive

in partnering with the Chamber to provide general banking and credit services.

SAMPLING/COMPARISON INFORMATION

Our analysis focused on the bank's primary product lines: commercial/small business loans, residential real estate loans and consumer loans. For *Lending to Borrowers of Different Incomes and Businesses of Different Sizes* and the *Geographical Distribution of Loans* analysis, we excluded loans that were made outside of the AA. The main office in Sonora is a significant consumer lender, so a specific sampling of consumer loans was examined for Sutton County. A separate sampling of commercial as well as consumer loans was conducted for Tom Green County. We reviewed residential loans made in both AAs. FNB originated all of the loans in our sample since the previous CRA examination.

Our review of the bank's loan-to-deposit ratio consisted of comparing FNB to four other banks headquartered in the designated AAs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has demonstrated satisfactory performance in meeting the credit needs of the AAs.

Loan-to-Deposit Ratio

FNB's loan to deposit ratio is reasonable, given the bank's size, financial condition and AA credit needs. During the last 19 quarters ending March 31, 2003, the bank's average loan to deposit ratio was 61%. Average ratios, for the same period, for comparable area banks with offices in FNB's AAs, ranged from a high of 79% for Crockett National Bank to a low of 30% for First National Bank of Mertzon. The chart below compares FNB's ratio to that of banks in the surrounding area.

Institution	Assets (\$000) as of 03/31/03	Average LTD Ratio
First National Bank of Sonora	116,390	60.79
Crockett National Bank	152,034	78.87
Texas State Bank	143,936	47.81
Ozona National Bank	128,202	45.75
First National Bank of Mertzon	122,340	29.69

Lending in Assessment Area

FNB makes a substantial majority of its loans to borrowers in the AAs. Our loan sample of residential real estate, commercial and consumer loans found 95% of loans in the sample were made to borrowers in the AAs. The following table reflects the bank's lending in and out of the AAs by type of loan sampled.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
1-4 Family Residential	154	97%	\$8,363	98%	5	3%	\$151	2%
Consumer	35	88%	\$411	66%	5	12%	\$209	34%
Commercial/ Agriculture	19	95%	\$561	79%	1	5%	\$150	21%
Total Reviewed	208	95%	\$9,335	95%	11	5%	\$510	5%

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes given the demographics of the AAs. The table below details the income distribution of the loans in our residential loan sample. It indicates the bank made residential loans to low-income families, but at a proportionally lower level compared to the percentage of low-income families in the AAs. Specifically, our analysis indicates 16% of residential loans sampled were to low- and moderate-income families, which account for 39% of families in the AAs. This pattern can largely be attributed to the relatively low demand for new housing in Sutton County and the higher median housing values in Tom Green County compared to the defined low-income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	20		19		22		39	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000	3	3	4	3	10	9	25	25
2001	1	1	3	2	2	1	23	27
2002	2	4	3	2	3	2	21	20
Total	6	8	10	7	15	12	69	72

The sample of consumer loans in Tom Green County reflects a relatively low penetration of lending to low- and moderate-income households. Twenty-percent of consumer loans originated were to low- and moderate-income families compared to 40% of families in the AA having low- to moderate-incomes. A contributing factor to this pattern is the strong consumer lending competition in the San Angelo area. The following table reflects the bank's record of consumer lending in Tom Green County.

CONSUMER – Tom Green County (MSA)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	24		16		20		40	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000 to 2003	10	8	10	2	30	19	50	71

The main office in Sonora, located in Sutton County, is a strong consumer lender and has a particularly good lending record to low and moderate-income consumers. Over half of our consumer sample (55%) was made to borrowers in those groups. Of particular service to low income borrowers is management's willingness to make unsecured loans for particularly small amounts. As of March 31, 2003, FNB had approximately 200 consumer loans originating for \$2 thousand or less.

CONSUMER – Sutton County (Non MSA)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	24		17		16		43	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000 to 2003	30	32	25	16	10	18	35	34

The distribution of loans to businesses is reasonable given the demographics of the area. Of the 20 loans sampled, 16 or 80%, were to small businesses. In fact, three of the loans were made to businesses with revenues less than \$100 thousand.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94	6
% of Bank Loans in AA #	80	20
% of Bank Loans in AA \$	41	59

Geographic Distribution of Loans

A geographic analysis of loans made in Sutton County was not performed since the county is composed entirely of (two) middle-income BNAs. FNB's geographic distribution of loans throughout the Tom Green County AA reflects a reasonable dispersion given the bank's resources and the location of bank offices in the county.

Our analysis found the residential lending effort centered in upper and, in particular, middle income areas. Residential growth in San Angelo has been centered in the southern part of the city where several middle- and upper-income census tracts are located. Although 9% is not a strong penetration of residential lending in lower income areas, it reflects a reasonable dispersion in the AA. As reflected in the table below, 1990 Census data indicates only 19% of owner-occupied housing in Tom Green County is located in low- or moderate-income census tracts.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	2		17		53		28	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000	1	1	3	2	21	23	17	15
2001	1	1	1	1	17	18	12	10
2002	0	0	2	3	10	15	10	17
Totals	1	1	8	4	56	48	35	47

The geographic distribution of consumer loans in Tom Green County was also found to be appropriate. The 1990 Census information shows 22% of households live in low- and moderate-income census tracts, comparable to the distribution reflected on the table below.

CONSUMER- Tom Green County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	3		19		51		27	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000 to 2003	0	0	20	16	40	20	40	64

Our sample of business loans centered on loans made in Tom Green County where the majority of commercial lending activity occurs. FNB's lending to businesses in low-income census tracts is reasonable. Fifteen percent of the business loans sampled were in low-income areas. Although none of the business loans we sampled were in moderate-income areas, management provided a list of several loans to businesses that are located in these areas. The significant growth area in the San Angelo MSA is primarily in the southern portion of the city, in the middle to upper income census tracts, as shown in the table below.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	14		17		43		26	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000 to 2003	15	55	0	0	40	25	45	20

Responses to Complaints

No CRA related consumer complaints were received since our previous examination.

Fair Lending Review

An analysis of four years public comments and consumer complaint information and HMDA was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1998.