



PUBLIC DISCLOSURE

May 22, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 11700

1500 N. Fabens Road
Fabens, TX 79838

Office of the Comptroller of the Currency
Dallas Field Office
225 East John Carpenter Freeway, Suite 500
Irving, TX 75062

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.

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

First National Bank (FNB) has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- A substantial majority of FNB's loans were originated within the assessment area (AA).
- The loan-to-deposit ratio is reasonable and averaged 77 percent during the evaluation period.
- FNB's distribution of loans to businesses with gross revenues of less than \$1 million is satisfactory.
- FNB's overall distribution of home mortgage products and consumer loans to low- and moderate-income (LMI) families is reasonable when considering performance context.
- FNB's community development (CD) performance is satisfactory and demonstrates adequate responsiveness to the CD needs of its AA.

Scope of Examination

FNB qualifies as an Intermediate Small Bank under the CRA regulation and is thus, subject to a Lending Test and CD Test. The Lending Test evaluates the bank's record of helping to meet the credit needs of its AA through its lending activities. The CD Test evaluates a bank's CD lending, qualified investments, and CD services.

The evaluation under the Lending Test covers loans originated from March 2009 through December 2011. We excluded 2012 loan data for the lending test and bank management agreed. The 2012 loan data must be evaluated against different census information than 2011 and prior loan data, and would have resulted in twice as many tables in the performance evaluation. We believe that such a performance evaluation would be less clear to the reader, and would not have changed our conclusions.

We assessed performance under the lending test based on our review of a sample of loans originated by FNB. Our sample included 20 commercial loans and all Home Mortgage Disclosure Act (HMDA)-reportable residential real estate loans. The CD portion of the examination assessed CD activities and loans from 2009 through year-to-date 2013.

Description of Institution

FNB is a community bank headquartered in Fabens, which is located in El Paso County, Texas. FNB is a full-service bank offering traditional loan and deposit products and services to individuals and businesses. FNB was established in 1920 and has grown to over \$309 million in total assets as of March 2013. The main office is located at 1500 N. Fabens Road in Fabens, Texas. In addition to its main office, FNB operates six full-service branches in the Texas communities of El Paso, Clint, and Horizon City. The bank operates four neighborhood locations within the City of El Paso; Cielo Vista, El Dorado, Resler, and Ysleta.

The main office in Fabens is located in a moderate-income census tract. All of the El Paso branches and the Horizon City location are in middle-income census tracts. The branch in Clint is also in a moderate-income census tract. FNB has not opened or closed any branches during this evaluation period. FNB also offers consumer and business internet banking services. The bank has one ATM facility located at the El Dorado branch location, located in a middle-income census tract. The bank also contracts with a third party vendor, ATM National, LLC to provide access to the AllPoint Network ATMs. The bank advertises that this provides bank customer access to 129 local ATMs without surcharges in El Paso County.

The bank is 100 percent owned by the holding company, First Fabens Bancorporation, Inc. FNB has one operating subsidiary, Rio Bravo Title, LLC. Neither the holding company nor the subsidiary's activities impact the bank's CRA rating. There are no legal, financial or other factors impeding the bank's ability to help meet the credit and community development needs in its AA.

FNB offers a variety of credit products including commercial real estate, commercial, consumer, residential, and small business loans. The bank's business strategy focuses on commercial real estate lending. The bank offers deposit products such as checking, savings, NOW, money market, and time deposit accounts.

FNB reported total assets of \$320 million and total liabilities of \$289 million as of March 31, 2013. Total loans of \$206 million represent 64 percent of total assets. A summary of the loan portfolio is reflected in the table below:

Loan Portfolio Composition as of March 31, 2013		
Loan Category	\$(000)	% Total
Commercial Real Estate	\$131,875	63.9%
Commercial & Industrial	\$45,196	21.9%
Residential Real Estate	\$25,379	12.3%
Individual	\$2,021	1.0%
Farm & Agricultural	\$1,967	1.0%
Total	\$206,438	100%

FNB's identified assessment area is highly competitive. Competition from other financial institutions is above-average and increasing. The primary competition consists of other state and national financial institutions, credit unions, and branch facilities of large regional and national institutions. Much of the competition is highly visible and offers very competitive rates on loans and deposits.

FNB received an overall rating of “Satisfactory” during its previous CRA examination dated March 2009, using Small Bank CRA Procedures.

Description of Assessment Areas

FNB has designated all of El Paso County and one census tract (CT) in Hudspeth County as its assessment areas (AA). The AA is part of the El Paso Metropolitan Statistical Area (MSA). The AA is comprised of 127 census tracts: eight low-income, forty-two moderate-income, forty-one middle-income, and thirty-six upper-income census tracts. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies. Specific demographic and economic data for this area is listed below:

Demographic and Economic Characteristics of Assessment Area	
Population	
Total Population	682,194
Number of Families	167,928
Number of Households	210,844
Geographies	
Number of Census Tracts	127
% Low-Income Census Tracts	6.30%
% Moderate-Income Census Tracts	33.07%
% Middle-Income Census Tracts	32.28%
% Upper-Income Census Tracts	28.35%
Median Family Income (MFI)	
2008 MFI for AA	\$36,230
2011 HUD-Adjusted MFI	\$41,159
Economic Indicators	
Unemployment Rate (El Paso County)	5.19%
% Households Below Poverty Level	21.62%

El Paso County is an urban county located in the far west part of Texas. The city of El Paso serves as the county seat and is the largest city in the county. El Paso County encompasses 1,015 square miles.

The El Paso County economy is well diversified with a variety of industries and businesses. Major industries and employers include a strong federal, civil and military presence. The area is home to Fort Bliss, one of the largest military complexes of the United States Army. Health care, oil and gas, education, and technology services represent the largest industries and employers. Despite the troubling economic conditions nationwide, El Paso County has remained one of the better positioned markets in the country. The Hudspeth County economy is centered on agriculture and ranching and is very sparsely populated. Hudspeth County is included in the AA since the main office for the bank has been located near there since 1920.

Based on business demographic data, there are 55,705 businesses in the AA. Of these businesses, 63 percent reported gross annual revenue less than \$1 million and 3 percent reported gross annual revenue equal to or greater than \$1 million. Because reporting is voluntary, 34 percent of the businesses did not report revenues.

Based on demographic data, the AA has a total population of 682,194. There are 225,546 housing units in the AA, of which 59 percent are owner-occupied, 34 percent are renter-occupied, and 7 percent are vacant. Approximately 6 percent of the families in the AA are considered low-income. Moderate-income families approximate 33 percent of the population, middle-income families total 32 percent, and upper-income families comprise 28 percent of the population, respectively.

Community contacts conducted in connection with this examination disclosed that there are no significant gaps in local financial institutions meeting the credit needs of the AA. The primary credit needs identified include financing for affordable housing and other residential mortgage lending, small business loans in support of economic development, and consumer loans.

Conclusions with Respect to Performance Tests

First National Bank's performance under the Lending Test is Satisfactory. Our conclusion is based on a reasonable loan-to-deposit ratio considering performance context, an outstanding lending performance within the bank's AAs, a reasonable borrower distribution of loans within the bank's AAs, and a reasonable geographic distribution of loans within the AAs.

LENDING TEST

To assess FNB's performance under the lending test, we focused our review on the commercial and residential lending products originated since the previous CRA examination. In our analysis, we included all residential real estate loans originated from July 2009 through year-end 2011 that were reported under the requirements of HMDA. We also reviewed 20 commercial loans originated during the same period. Given that commercial lending is the bank's primary lending product, more weight was given to that product.

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio (LTD) is reasonable given the bank's size, financial condition, and the credit needs of the assessment area (AA), when compared to three other similarly situated banks. The quarterly average LTD ratio for FNB from March 2009 to March 2013 was 77.33 percent. The ratio ranged from a quarterly high of 84.12 percent and a low of 70.33 percent. The most recent LTD ratio as of March 31, 2013 is 71.41 percent. The three similarly situated banks are Capital Bank S.S.B, West Star Bank, and United Bank of El Paso Del Norte. All three similar institutions are located in El Paso. FNB has the second highest LTD ratio among the similarly situated banks. The average LTD ratio for the similarly situated banks is 75.95 percent.

Financial Institution	Total Assets as of 03/31/2013 (000s)	Average Quarterly LTD Ratio as of 03/31/2013
Capital Bank S.S.B.	227,015	87%
First National Bank	319,720	77%
West Star Bank	1,002,153	71%
United Bank of El Paso Del Norte	186,250	70%
Average LTD Ratio (All Peer)	-	76%

Source: The Federal Financial Institutions Examination Council's (FFIEC) Consolidated Reports of Condition and Income (Call Report) data gathered from March 31, 2009 to March 31, 2013.

Lending in Assessment Area

A substantial majority of loans are originated inside FNB's AA and reflect outstanding performance. In order to assess performance for this criterion, we reviewed 20 commercial loans, 529 home purchase loans, 6 home improvement loans, and 83 refinance loans from available HMDA data. We determined that 95 percent of the number of loans and 94 percent of the dollar amount of loans in the sample were originated within the bank's AA. The breakdown by loan category is depicted in the following table.

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	505	95.46	24	4.54	529	79,451	95.28	3,933	4.72	83,384
Home Improvement	6	100.00	0	0.00	6	182	100.00	0	0.00	182
Refinance	79	95.18	4	4.82	83	13,663	95.32	671	4.68	14,334
Commercial	18	90	2	10	20	5,672	92.86	436	7.14	6,108
Totals	608	95	30	5	638	98,968	94	5,040	6	104,008

Source: Data reported under HMDA; loan sample.

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

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes. More weight was given to business loans due to the fact it is the primary lending product of First National Bank.

Business Loans

The distribution of loans originated to businesses with revenues less than \$1 million reflects a reasonable penetration of loans to small businesses. The percentage of businesses within the AA that generate revenues less than \$1 million is 63.39 percent based on data from Dunn and Bradstreet. FNB originated 36 percent of the total dollar amount of its business loans to businesses with revenues less than \$1 million. When looking at the number of loans made to businesses within the AA that generate revenues less than \$1 million, the percentage improves to 83 percent. This level is in line with the demographic composition for the AA and reflects a reasonable penetration of loans to small businesses. The largest loan in our sample was made to a business with revenues greater than \$1 million. This loan represented 38.4 percent of the dollar amount of our sample and affected the ratio of loans to businesses with revenues greater than \$1 million. The following table shows the distribution of commercial loans among businesses of different sizes in the AA.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	63.39	2.61	34.00	100%
% of Bank Loans in AA by #	83	17	0	100%
% of Bank Loans in AA by \$	36	64	0	100%

Source: Loan sample; Dunn and Bradstreet data.

Residential Loans

Residential lending to LMI borrowers reflects poor penetration among borrowers of different income levels. Demographic data for low-income families is 22.19 percent compared to 1.44 percent of home purchase loans and 1.49 percent of refinance loans originated to low-income borrowers. Demographic data for moderate-income families is 17.48 percent and is comparable to the amount of total loans originated to moderate-income families of 9.24 percent for home purchase loans and 2.99 percent for refinance loans. There have been zero home improvement loans originated to low- and moderate-income borrowers due to the low amount of home improvement loans overall. FNB has only originated 6 home improvement loans since March 2009. Additional mitigating circumstances include households that are below poverty level at 30 percent for the AA, a low level of median household income of \$11,218 in low-income areas, and a relatively high median housing price of \$69,920. It is difficult for many low- and moderate-income individuals to qualify for mortgage loans at median housing values due to insufficient income levels and/or down payments. Approximately 20 percent of households in low-income areas receive public assistance. The following table reflects the analysis of the HMDA reportable loans.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
Home Purchase	22.19	1.44	17.48	9.24	18.91	23.82	41.43	65.50
Home Improvement	22.19	0.00	17.48	0.00	18.91	100.00	41.43	0.00
Refinance	22.19	1.49	17.48	2.99	18.91	19.40	41.43	76.12

Source: Data reported under HMDA; 2000 U.S. Census data.

Geographic Distribution of Loans

FNB’s geographic loan distribution reflects reasonable dispersion throughout the AA.

Business Loans

Geographic distribution of business loans in the AA reflects reasonable dispersion. The geographic distribution of sampled business loans in low-income CTs is slightly lower than the percentage of businesses in the area by approximately 100 basis points. The percentage of businesses located in low-income CTs is 6.17 percent; our loan sample reflected 5 percent of business loans located in low-income CTs. The distribution of commercial loans in moderate-income CTs is also slightly below the percentage of businesses in the area. The percentage of businesses located in moderate-income CTs is 26.6 percent. Our sample indicated approximately 25 percent of business loans were located in moderate-income CTs. This is slightly below the percentage of businesses located in moderate-income CTs. The following table summarizes the distribution of business loans by income level, including middle and upper CTs.

Table 3A - Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	6.17	5	26.55	25	28.52	25	38.76	45

Source: Loan sample; Dunn and Bradstreet data.

Residential Loans

Geographic distribution of residential loans reflects poor dispersion throughout the AA. The percentage distribution of residential loans for home purchase and home improvement loans is lower than the percentage of owner-occupied housing units in low-income CTs. In the assessment area, 0.92 percent of owner-occupied housing units are located in low-income geographies and our data reflects that 0.59 percent of home purchase loans and zero home improvement loans were located in low-income CTs. A large part of the low percentage of home improvement loans is due to the fact the bank only had 6 loans total. However, 1.27 percent of refinanced loans were made in low-income geographies, which exceeds the demographic. In the AA, 27.08 percent of owner-occupied housing units are located in moderate-income geographies, and the HMDA data reflects that 7.72 percent of home purchase loans and 10.13 percent of refinance loans were located in moderate-income CTs. Approximately, 50 percent of home improvement loans were located in moderate-income CTs, which exceed the demographics of 27 percent. The following table illustrates the analysis of residential loans from 2009 through 2011.

Table 3 - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.92	0.59	27.08	7.72	34.71	39.41	37.29	52.28
Home Improvement	0.92	0.00	27.08	50.00	34.71	0.00	37.29	50.00
Refinance	0.92	1.27	27.08	10.13	34.71	39.24	37.29	49.36

Source: Data reported under HMDA; 2000 U.S. Census data.

Responses to Complaints

There have been no consumer complaints related to FNB’s CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

FNB's performance under the Community Development Test is Satisfactory.

Number and Amount of Community Development Loans

FNB demonstrates adequate responsiveness to the needs of its AA through qualified CD loans totaling \$9.2 million. FNB has three qualifying community development loans. The proceeds from these loans were used to provide affordable housing for low-to-moderate income families within El Paso County. All three loans originated since the prior CRA examination. The loans include the following: Tierra Del Sol Housing at \$2 million; Canyon Square at \$3.8 million; and Desert Villas at \$3.4 million. The loan for Desert Villas was paid off with tax credits.

Number and Amount of Qualified Investments

FNB demonstrates adequate responsiveness to the needs of its AA through qualified investments and CD services, considering the institution’s capacity and the need and availability of such opportunities in the AA.

SBA - 7A guaranteed loan pools - These are SBA loans that are being sold on the secondary market. The bank is able to invest in these loans for a short period of time while they are being packaged for sale. The balance invested as of examination date is \$7.7 million, while the total commitment is \$8 million. The balance fluctuates as pools of loans are bought and sold. FNB shares ownership of the pool of loans with other financial institutions. FNB has a perfected security interest in the SBA securities market value each day. FNB has been investing in this pool for 2 years. The investment

qualifies because it invests in small business and has positive impact for a limited number of small business owners within the banks AA.

Medical Center of Americas Foundation - The bank has made four annual investments of \$5,000 each from 2009 through 2013 for a total of \$20,000. The full commitment of \$25,000 will be made with the final \$5,000 investment in 2014. The Medical Center of the Americas Foundation is a 501c(3) non-profit organization that works to advance the development of the El Paso areas biomedical innovation pipeline. A complex of medical buildings is currently under development, which is located on a 440 acre tract. This \$20,000 donation qualifies since it revitalizes and stabilizes a low-income census tract. The Medical Center of Americas Foundation is located in a low-income census tract.

Total investments of \$7.7 million meet the performance for adequate responsiveness.

Extent to Which the Bank Provides Community Development Services

FNB's CD services reflect adequate responsiveness to the needs and opportunities in the AA. Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AA. Business hours and services are convenient and are accessible to all segments of the AA.

The branch system is the primary delivery system for retail banking services and is supplemented by one ATM. Branch distribution is reasonable when the overall distribution of low, moderate, middle, and upper income geographies in the bank's assessment area is considered. Two of the branches, including the main location, are within moderate-income areas. All five of the El Paso branches and the Horizon City location are in middle-income census tracts. FNB has not opened or closed any branches during this evaluation period. FNB also offers consumer and business internet banking services and full-service branches. The bank has one ATM facility located at the El Dorado branch location, located in a middle-income census tract. The bank offers other alternative delivery systems including telephone banking, ATM/Debit cards, and Internet banking. The bank also contracts with a third party vendor, ATM National, LLC, to provide access to the AllPoint Network ATMs. The bank advertises that this provides customer access to 129 local ATMs without surcharges within El Paso County.

Banking hours provide adequate accessibility throughout the AA. All locations maintain standard banking hours Monday through Friday with extended lobby hours on Friday. All motor bank locations offer extended evening and weekend hours. These services enhance the accessibility of the branches.

An adequate range of deposit and loan products and business services are available at all FNB's branch locations. Products and services are responsive to banking needs within the AA and do not vary in a way that inconveniences any portion of the AA, or any group of individuals, particularly LMI individuals.

Responsiveness to Community Development Needs

The volume and responsiveness of the bank's community development services reflects poor responsiveness. Qualified services focus on volunteer activities within the community. Although the bank officers and employees serve in various community organizations, these services benefit all income levels and are geared toward student scholarship activities.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.