



PUBLIC DISCLOSURE

January 12, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank Albany/Breckenridge
Charter Number 3248

100 S. Main Albany, TX 76430

Office of the Comptroller of the Currency
Fort Worth Field Office
9003 Airport Freeway Suite 275 North Richland Hills, TX 76180-9127

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.

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

- The loan-to-deposit (LTD) ratio is reasonable and averaged 45% during the evaluation period.
- A majority of FNB's loans were originated within the assessment area (AA).
- FNB's distribution of loans to businesses with gross revenues of less than \$1 million is reasonable. FNB's overall distribution of home mortgage products to low- and moderate-income (LMI) families is reasonable when considering performance context issues.
- No consumer complaints regarding FNB's CRA performance were received during this evaluation period.
- FNB's geographic distribution of residential and business loans to LMI census tracts reflects excellent dispersion.
- FNB's community development (CD) performance 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 a 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 services.

The evaluation under the Lending Test covers loans originated between November 28, 2011 (the date of the prior Performance Evaluation) and January 12, 2015 (the date of the current Performance Evaluation). Performance under the lending test was assessed based on a review of FNB's residential real estate, commercial and industrial, and commercial real estate loans. CD activities were also evaluated over the period from November 28, 2011 through January 12, 2015.

For our evaluation of the distribution of loans, we utilized the demographics and geographies related to the 2010 Census.

Our evaluation is based on accurate data. We tested/sampled loans to verify the accuracy of data used for this evaluation. We also verified CD loans, investments and services submitted by management to ensure the investments and activities met the regulatory definition for community development. We excluded any items that did not meet the definition or purpose of community development.

As no affiliates exist, their activities were not considered in this evaluation.

Description of Institution

FNB is 100% owned by Albany Bancshares, Inc., a one-bank holding company. Shareholders of the holding company are local individuals. The bank's main office is located in Albany, Texas with branches in Breckenridge, Gordon, and Strawn, Texas. FNB has no operating subsidiaries and had no merger or acquisition activity during the evaluation period. There are no other known affiliates.

Albany is located approximately 30 miles northeast of Abilene, Texas. Breckenridge is located approximately 25 miles east of Albany and approximately 55 miles east/northeast of Abilene. The bank's main office and Breckenridge branch operate drive-thru facilities and both offer on-site ATMs. The Gordon and Strawn branches are about five miles apart, just north of I-20, approximately 90 miles east of Abilene and 60 miles west of Fort Worth, Texas. FNB has not closed any branches during this evaluation period.

FNB is a full-service community bank offering a wide variety of loan and deposit products, including transactional Internet banking through www.fnbab.com. It is the bank's mission to balance the servicing of their customers with prudent and conservative banking principles in order to be the bank of choice in their AA. As of September 30, 2014, FNB had total assets of \$481 million, total loans of \$203 million, and total deposits of \$422 million. The following table represents the loan distribution as of September 30, 2014.

Loan Portfolio Composition as of September 30, 2015		
Loan Category	\$(000)	%
Commercial & Industrial	67,116	33.1
Residential Real Estate	42,118	20.8
Commercial Real Estate	40,226	19.8
Consumer & Other	29,294	14.5
Farm loans & Agriculture RE	17,597	8.7
Construction & Development	6,376	3.1
Total	\$202,727	100.00

Source: September 30, 2014 Report of Condition

FNB's last CRA examination was performed as of November 28, 2011, using Intermediate Small Bank CRA Procedures, and resulted in a "Satisfactory" rating. FNB's financial condition does not inhibit its ability to meet credit needs in its AA. Additionally, there are no legal impediments to the bank's ability to meet the credit needs of the communities served.

Description of Assessment Area

FNB's lone assessment area includes all of Shackelford and Stephens Counties and one census tract (CT) in southern and western Palo Pinto County. The bank's main office is located in Shackelford County, the Breckenridge branch is located in Stephens County and the Gordon and Strawn branches are located in the Palo Pinto County CT. These counties are contiguous and are considered one assessment area. The assessment area is legal, meets the requirements of the regulation, and is not part of any Metropolitan Statistical Area. Moreover, the bank's main office and both branches in Palo Pinto County are located in designated underserved/distressed nonmetropolitan middle-income census tracts. The Breckenridge branch is located in a moderate-income CT.

Below is a description of the assessment area, which includes information on demographics, housing, and family data.

Demographic and Economic Characteristics AA	
Population	
Total Population	15,199
Number of Families	3,864
Number of Households	5,739
% Retired Households	14.83%
% Social Security Households	37.52%
Businesses and Farms	
Number of Businesses and Farms	1,614
Businesses and Farms with less than five employees	66.36%
Businesses and Farms with less than \$500,000 annual revenue	68.34%
Residential	
% Owner occupied units	51.23%
Geographies	
Number of Census Tracts	5
% Low-Income Census Tracts	0.0%
% Moderate-Income Census Tracts	20.0%
% Middle-Income Census Tracts	80.0%
% Upper-Income Census Tracts	0.0%
Demographics	

Low income families	21.01%
Moderate-income families	17.42%
Median Family Income (MFI)	
2010 Census MFI	\$47,817
2014 HUD-Adjusted MFI	\$51,600
Economic Indicators	
Unemployment Rate	2.02%
2010 Median Housing Value	\$69,777
% Households Below Poverty Level	14.55%

Source: 2010 Census data and HUD updated income data.

Information from a community contact indicates that the local economic conditions are “a bit depressed,” as the drought conditions in the area and the very recent decline in oil prices have adversely affected agriculture and oil related business, respectively. The community is primarily supported by the oil and gas industry, which has experienced recent layoffs and reduced salaries due to the drop in oil prices. Other major employers in the area include the local school districts and hospitals.

The 2010 unemployment rate remained low at 2.02%, with 14.6% of households below the poverty level. The primary community development credit and investment needs continue to be affordable housing and water acquisition projects. The local lake provides the water supply for the community, but its supply has significantly diminished due to drought conditions. While the bank did finance a water treatment plant, additional financing will likely be needed, as alternate sources of water are to be procured. CD service needs include the support/involvement of bank officers and employees for local economic development and other civic oriented organizations.

Competition is afforded by several national or state chartered financial institutions, including branch facilities of institutions not chartered in the counties served. Competition for loans and deposits is keen, and the competitors are highly visible in the communities.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the Lending Test is "**Satisfactory.**"

FNB's primary business lines are commercial real estate lending, residential real estate lending, and commercial and industrial lending. In our sample, we included these three types of lending to draw our conclusions. Equal weight was given to each type of lending when evaluating lending performance based on the criteria tested below.

Loan-to-Deposit Ratio

FNB's LTD ratio is reasonable and meets the standards for satisfactory performance given the bank's size, financial performance, and the AA's credit needs. The LTD ratio measures the extent to which the bank has returned the deposits it has acquired to the community in the form of loans. The average of this ratio for each quarter-end since the previous CRA examination is used to determine performance in this area. The average LTD for FNB averaged 44.8% over the last 12 quarters. This ratio ranged from a quarterly low of 40.5% as of June 30, 2012 to a quarterly high of 47.3% as of December 31, 2011.

There are 12 other financial institutions (banks, thrifts, savings banks) chartered in the AA and/or the surrounding counties that FNB competes with and is considered to be the comparative group. These institutions ranged in size from \$28 million to \$484 million. The average LTD ratio for community banks in the comparative group during the evaluation period was 57.5%, and ranged from a low average LTD of 34.9% to a high average LTD of 84.9%. Although FNB's LTD ratio is only average when compared to this group, FNB's ratio reflects a willingness to provide credit in light of mitigating factors. FNB regularly makes very small loans to individuals with limited resources. FNB currently has 166 active loans with an originating balance less than \$1,000. Additionally, the bank has 303 active loans with an original balance between \$1,000 and \$1,500. The smallest original amount is \$200.

Lending in Assessment Area

FNB's lending in its AA reflects satisfactory performance, meets applicable standards and reflects the bank's commitment to meeting the credit needs of its community. A majority of the loans in all three lending lines we tested (commercial and industrial, commercial real estate, and residential mortgage) were made inside the bank's AA. As depicted in the table below, 80% of the number and 56% of the dollar amount of loans were originated in FNB's AA, reflecting reasonable penetration.

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000s)
	#	%	#	%		\$(000s)	%	\$(000s)	%	
Residential RE	17	85%	3	15%	20	1,025	71%	422	29%	1,447
Commercial RE	15	75%	5	25%	20	2,556	50%	2,564	50%	5,119
Commercial	16	80%	4	20%	20	3,192	85%	576	15%	3,769
Totals	48	80%	12	20%	60	4,473	56%	3,562	44%	8,035

Source: Sample of loans.

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

The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes, and meets the standard for satisfactory performance. To perform our analysis, we reviewed income information for 20 residential mortgage loans, and revenue information for 20 commercial loans and 20 commercial real estate loans, all located within the AA. Each product type was weighted equally in this evaluation. More detail on lending performance of each of the products is discussed below.

Residential Loans

FNB's distribution of residential mortgage loans among borrowers of different income levels is reasonable and meets the standard for satisfactory performance. To conduct this analysis we compared the percentage of bank loans in our sample to the percentage of families that are classified as low-, moderate-, middle-, or upper-income. As illustrated in Table 2A below, the distribution of residential loans to low-income families at 5% is below the percent of low-income families in the AA at 21%. However, the performance is reasonable given that over half of the families in the AA are either retired or receive social security assistance, indicating fixed incomes, and there is a moderate level (14.55%) of families in the AA below the poverty level who likely could not qualify for a residential mortgage. Additionally, in the lone moderate-income census tract in the bank's AA, 31% of families are below the poverty level. This represents almost all of the low-income families, which represent 32% of total families in that census tract. The distribution of residential loans to moderate-income families is excellent at 25%, which is above the 17% of families in the AA being moderate-income, based on the 2010 U.S. Census data.

Table 2A - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	21%	5%	17%	25%	22%	25%	39%	45%

Source: U.S. Census data; Loan sample.

Commercial and Commercial Real Estate Loans

FNB demonstrated a satisfactory level of lending to businesses of different sizes. For this analysis we compared the percentage of loans to small businesses (businesses with revenues less than or equal to \$1 million) to the percentage of businesses in the AA that are classified as small businesses. Within our sample of commercial loans, 68% of the number and 69% of the dollar volume of loans were originated to small businesses. This level reasonably approximates the demographic comparator where 72% of the businesses within the AA are classified as small businesses.

Table 2B - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72%	4%	24%	100%
% of Bank Loans in AA by #	68%	20%	12%	100%
% of Bank Loans in AA by \$	69%	17%	14%	100%

Source: Dunn and Bradstreet data; Loan sample.

Geographic Distribution of Loans

FNB's geographic distribution of residential and business loans to moderate-income census tracts reflects excellent dispersion and demonstrates a pattern indicative of an institution seeking to service the credit needs of all census tracts in its AA. Moreover, FNB originated loans in all census tracts in their AA during the evaluation period.

As indicated in Table 3A, FNB originated 30% of 1-4 family real estate loans in the moderate-income census tract, which is well above the 15% of AA owner occupied housing in the moderate-income census tract. There are no low-income census tracts in the bank's AA. This demonstrates excellent distribution of residential mortgages to the moderate-income geography of the AA.

Table 3A - 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
1-4 Family	0.0	0.0	15.1	30.0	84.9	70.0	0.0%	0.0

Source: Loan Sample and U.S. Census data.

Table 3B below illustrates the bank originated 17.5% of business loans in the moderate-income census tract which compares favorably to the 15.6% of businesses being located in the moderate-income census tract. This demonstrates satisfactory distribution of business loans to the moderate-income geography of the AA.

Table 3B - 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	0.0	0.0	15.6	17.5	84.4	82.5	0.0	0.0

Source: Dunn and Bradstreet data; Loan sample.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

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

FNB's responsiveness to the community development needs of the AA through CD lending, investments, and services is adequate. Our conclusion is based on the bank's level of activity and performance context. The number and amount of community development loans, services, and qualified investments is satisfactory, based on the bank's size and financial condition. Since the 2011 examination, management and the Board purchased one CRA-qualified security, made numerous donations and community development loans, and participated in numerous community development services. Employees are active within the community and are sensitive to community development opportunities.

The bank's AA spans across two contiguous counties and one CT in a third contiguous county in rural Texas. The population of the AAs is centered in the communities of Albany and Breckenridge. The bank's main office and both branches in Palo Pinto County are located in designated underserved/distressed nonmetropolitan middle-income census tracts. The Breckenridge branch is located in a moderate-income CT. Based on comments by a community contact and the bank's own assessment of the AA, we determined the bank is proactive in meeting the needs of its community.

Number and Amount of Community Development Loans

FNB has 12 loans that qualify as community development loans. The total amount of these loans is \$1,293 thousand (2.8% of Tier 1 Capital as of 9/30/14). Loan proceeds were used for new equipment and fire trucks for local volunteer fire departments, economic development in the moderate-income census tract, and to build community and civic buildings in the AA. These loans help support services for low- and moderate-income individuals and assist in revitalizing and stabilizing low- and moderate-income geographies. Additionally, the bank originated a zero interest rate loan for the local hospital district, which serves low- and moderate-income individuals, to obtain matching grant funds. CD lending activity reflects adequate responsiveness to community needs.

Number and Amount of Qualified Investments

Qualifying investments include investments, deposits, membership shares, or grants that have CD as their primary purpose. CD investment activity reflects adequate responsiveness to the community's needs.

During this CRA period, the bank has made five qualified donations totaling \$64 thousand. The recipients of these donations have historically targeted services to

LMI individuals. These recipients include the American Cancer Society, Alzheimer's Association, Ben Richey Boys Ranch, Texas Children's Hospital, Toys for Tots, and Gordon Community Food Bank.

The bank has one investment in a CRA-qualified investment fund, a GNMA 30-year bond totaling \$2.5 million. This fund's mission is to meet the credit needs for affordable housing primarily for LMI individuals, in the Fort Worth and Abilene, Texas areas.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, FNB exhibited adequate responsiveness to the CD service needs of the AA.

FNB's has over 50 documented instances of community development services during this review period. Many employees participate in one or more community-related services, such as the Albany Economic Development Board, Stephens Memorial Hospital Foundation Board, and the Breckenridge ISD Student Health Advisory Committee to name a few. 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. Over half of the students in all of the schools in the bank's AAs come from LMI families. All the schools qualify for the federal government's free and reduced lunch plan.

Responsiveness to Community Development Needs

The bank's CD activities reflect adequate responsiveness to CD needs. Qualified services focus on volunteer activities within the community. In advisory capacities, FNB officers and employees serve various community development organizations that benefit LMI individuals and families.

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.