



PUBLIC DISCLOSURE

November 28, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Bosque County
Charter Number 13675

418 Avenue C
Valley Mills, TX 76689

Office of the Comptroller of the Currency
Dallas Field Office
225 East John Carpenter Freeway
Suite 900
Irving, Texas 75062

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including LMI 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”.

Major factors that support this Satisfactory rating include:

- The First National Bank of Bosque County’s (FNB or Bank) quarterly average loan-to-deposits (LTD) ratio of 58.58 percent for the nineteen quarters since the last CRA examination is **reasonable**. The quarterly LTD ratio ranged from a low of 50.17 percent to a high of 67.90 percent.
- A **majority** of loans originated and purchased are within the Bank’s Assessment Area (AA). The bank originated 78.06 percent by number and 80.08 percent by dollar amount of its loans during the evaluation period within its AA.
- The distribution of residential and consumer loans to borrowers of different income levels exhibits **reasonable penetration**.
- The geographic distribution of residential and consumer loans to low- and moderate-income (LMI) census tracts (CTs) indicates **reasonable dispersion**.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) assesses the Community Reinvestment Act (CRA) performance of FNB under the Small Bank performance criteria. We utilized the lending test to evaluate the Bank’s record of meeting the credit needs of its AA. We performed a full-scope review of CRA activities. This PE starts from the date of the Bank’s previous CRA examination covering the period from March 26, 2012, to November 28, 2016.

FNB’s primary loan products are commercial, consumer and residential real estate loans. The Bank is required to report data in accordance with the Home Mortgage Disclosure Act (HMDA). Our review focused on residential real estate loans as reported for the HMDA in the years 2012 through 2015. A data integrity review of the loans reported for HMDA, conducted prior to this evaluation, found the data to be reliable. Given that the FNB originates a larger percentage of consumer loans than commercial loans, our evaluation included a sample of consumer loans. We selected a sample of 58 loans originated or purchased from January 1, 2012, through December 31, 2015. No apparent anomalies were identified, and the Bank had no affiliate activities to consider.

DESCRIPTION OF INSTITUTION

FNB is an intrastate community bank that organized in Bosque County, Texas in 1896. The Bank is headquartered in the City of Valley Mills, Texas, which has a population of 1,203 and is located approximately 100 miles south of Dallas/Fort Worth off Interstate Highway 35 and 25 miles west of the City of Waco, Texas on State Highway 6.

FNB is wholly-owned by Valley Mills Financial Corporation, a one-bank and locally owned holding company.

FNB received a Satisfactory rating in its previous CRA Performance Evaluation dated March 26, 2012.

FNB has banking facilities in two Assessment Areas (AAs), the McLennan County AA which represents a portion of the Waco Metropolitan Statistical Area (MSA), and the Bosque County AA, which is not part of an MSA. Both AAs are composed of large rural geographies. There has been no change in the number or location of FNB's banking facilities, which are located in areas accessible to persons from different areas of the communities the Bank serves. In addition to the headquarters in Valley Mills, FNB has three branch facilities, two that are located in Bosque County and a third in McLennan County, Texas. The branches in Bosque County are located in the cities of Clifton and Meridian. Clifton has a population of 3,376 and is located approximately 10 miles northwest of Valley Mills on Texas State Highway 6. Meridian is the county seat, has a population of 1,493 and is located 10 miles northwest of Clifton on Texas State Highway 6. The Clifton branch was established in 1990 and the Meridian branch in 2005. The branch facility in McLennan County known as "The Ranch House" opened in 1995 and is located 10 miles south of Valley Mills in the western portion of Waco on State Highway 6. Lobby and drive-thru hours are set by each location to meet community needs. All banking locations, with the exception of Meridian, offer drive-thru banking services. The Clifton and Ranch House branches offer 24-hour customer access to an Automated Teller Machine (ATM). The CRA Public File can provide more detail of the services available at each location.

FNB offers traditional personal and business loan and deposit products and services. Loan products include a standard selection of commercial, agricultural, and consumer loans, in addition to residential loans for home purchase, improvement, and refinance. The Bank also offers a variety of consumer and business deposit services including three different checking accounts (personal and business), savings accounts, time deposits, and individual retirement accounts. Alternative banking services include debit cards (personal and business), credit cards, wire transfers, money orders, and online mobile banking with bill pay capabilities.

As of December 31, 2015, Bank assets totaled \$118.3 million. Liabilities totaled \$107.2 million, and capital was \$11.1 million. Loans represent approximately 52 percent of assets. Based on call report data as of December 31, 2015, FNB's primary loan products include residential real estate (home loans), commercial & industrial (business loans), and consumer loans. As reflected in the table below, consumer loan originations totaled 4,114 during the four year period beginning January 1, 2012, through December 31, 2015. This represented the highest percentage of lending activity for the period next to commercial & industrial (business loans) and home loans.

Loan Originations (1/01/2012 - 12/31/2015)	Total Number of Loans Originated	% of Total Number Loans Originated	Total Dollar Amount of Loans Originated \$ (000)	% of Total Loans Originated (Dollar Amount)
Home Loans	295	6%	\$26,015	27%
Consumer Loans	4,114	75%	\$26,753	27%
Commercial & Industrial	789	14%	\$30,850	32%
Agriculture & Farm	228	4%	\$9,959	10%
Other	71	1%	\$3,923	4%
Total	5,497	100%	\$97,500	100%

Source: Bank-provided data; HMDA reported data.

The table below reflects the composition of the loan portfolio as of December 31, 2015. Single family residential real estate loans (home loans) totaling \$24.8 million represent the largest percentage at 39.9 percent of total loans. Consumer loans account for the highest percentage of loans originated and represent 12.3 percent of loans.

Loan Type (as of December 31, 2015)	Dollar Amount \$ (000)	% of Total Loans (Dollar Amount)
Single Family Residential Real Estate (1-4)	\$24,800	39.91%
Residential Real Estate (5+)	\$911	1.47%
Commercial and Industrial	\$12,367	19.90%
Consumer	\$7,625	12.27%
Commercial Real Estate	\$5,046	8.12%
Farmland Loans	\$4,110	6.61%
Agricultural Loans	\$4,609	7.42%
Construction & Land Development Loans	\$1,474	2.37%
Other	\$1,191	1.92%
Total	\$62,133	100%

Source: Call report data.

FNB's strategic plan near term is to increase earnings and capital, maximize efficiencies, manage liquidity, build relationship-based deposits, improve risk management and maintain regulatory compliance. In the longer term, management will work to differentiate the Bank from competition through superior service and local market presence, expand on building a growing portfolio of low cost relationship-based deposits, and continue to develop and support its employees.

Considering FNB's financial condition, stable and improved economy, various loan and deposit product and service offerings, and prior CRA performance, FNB has the ability to service the credit needs of its communities. There are no legal or financial impediments to the Bank's ability to meet the credit needs of its communities.

DESCRIPTION OF ASSESSMENT AREA(S)

Description of the Bosque County Assessment Area

Bosque County in its entirety is designated as one of FNB's AA. Bosque County is not part of a MSA or Metropolitan Division (MD). The AA consists of seven CTs (six medium-income and one upper-income geography). However, we found during our review that one CT in the AA (9502.00) was reclassified for a period of time from medium-income to moderate-income in conjunction with the 2010 Census. This income classification of CT 9502.00 to moderate-income became effective as of January 1, 2012, and continued through December 31, 2013. It was reclassified back to middle-income beginning January 1, 2014 and remains middle-income as of the date of this PE.

FNB's main facility is located in the southern portion of the county in CT 9507.00, which is a middle-income geography bordered by another middle-income CT to the north. According to the 2015 Federal Financial Institution's Examination Council (FFIEC) Report, none of the middle-income CTs in this AA have been classified as either distressed or under-served. The Bank has properly defined its AA in accordance with the technical requirements of the CRA regulation. The AA consists of whole CTs, does not arbitrarily exclude LMI CTs, and includes the CTs where FNB offices are located. The AA meets requirements of the regulation and does not reflect illegal discrimination.

The AA includes the cities of Valley Mills, Clifton, Iredell, Cranfills Gap, Walnut Springs, Morgan, and Meridian (the county seat). Bosque County as a whole has recorded modest economic and population growth since 2000. According to 2010 Census data, Bosque County population of 18,212 represents growth of 1,008, or 5.9 percent, from a 2000 census population of 17,204. This population growth, however, is below the state average rate of 20.6 percent and national average rate of 9.7 percent. There are 9,479 housing units in the AA and 6,732 households. Eighty percent of households live in middle-income CTs. Approximately 11 percent of families and 14 percent of households live below the poverty level. Approximately 53.6 percent of housing in the AA is owner-occupied and another 28.98 percent is vacant. The AA has a weighted average median family income of \$50,886 with a median housing value of \$92,075. The average age of the housing stock in the AA is 40 years. According to the Bureau of Labor Statistics, unemployment in Bosque County has steadily improved, from an unemployment rate of 8.8 percent in 2010 to 7.2 percent in 2012. The 2010 unemployment rate compares less than favorably to the state average of 6.7 percent but better than the national average of 7.9 percent. However, a more recent AA

unemployment rate (as of October 2016) of 4.1 percent compares more favorably to state and national averages of 4.4 percent and 4.9 percent.

The table below summarizes 2010 Census Demographic Data for the Bosque County AA. Currently, there are no low-income or moderate-income CTs in the AA (CT 9502.00 was classified moderate-income for half of the evaluation period).

Demographic Information for Bosque County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts (CT)/BNAs)	7	0.00	0.00	85.71	14.29	0.00
Population by Geography	18,212	0.00	0.00	79.67	22.73	0.00
Owner-Occupied Housing by Geography	5,079	0.00	0.00	79.54	20.46	0.00
Business by Geography	1,107	0.00	0.00	76.60	23.40	0.00
Family Distribution by Income Level	4,920	17.48	16.02	21.69	44.82	0.00
Households by Geography	6,732	0.00	0.00	79.87	20.13	0.00
Median Family Income		\$50,886	Median Housing Value	\$92,075		
FFIEC Updated Estimated Median Family Income		\$52,800	Unemployment Rate (Bureau of Labor Statistics)	Bosque County 7.2% Texas 6.7% Nation 7.9%		
Households Below Poverty Level		13.76%				

Source: 2010 U.S. Census data; Dunn & Bradstreet; 2015 Business Demographic data; FFIEC Estimated Median Family Income.

The AA's general economy has improved steadily since 2010. The AA continues to be a "bedroom community" with a large percentage of the population commuting into Waco for employment. The most common industries are service, retail and agricultural. Employers are primarily service and retail related, but include surrounding independent school districts, government offices, post offices, and medical/health facilities. Major employers in the AA include the Goodall-Witcher Hospital and Clifton Medical Clinic, and Lutheran & Sunset Ministries and Retirement Village. Non-farm businesses in the AA total 1,107, of which 77 percent employ four people or less.

The AA's banking market is moderately competitive. While improved, loan demand remains relatively low. FNB is the only federally-chartered bank in the AA. There are four small state-chartered banks operating inside the AA. According to the FDIC Market Share Report as of June 30, 2016, there are a total of five banks operating in 10 offices within Bosque County. First Security State Bank, a state-chartered bank headquartered in Cranfills Gap, Texas ranks first in market share, albeit marginally, with deposits totaling \$85.6 million. Management indicated First Security State Bank is its closest competition, but its primary products are commercial and agriculture/farm loans. FNB operates 3 offices in the AA and ranks second with deposits totaling 84.4 million representing market share of 32.28 percent. There is no competition from credit unions in the AA.

In conducting this evaluation, a community contact indicated local banks are meeting the needs of the community satisfactorily. Residential, consumer and small business loans (start-up and working capital) remain a need in the community to sustain economic growth and development in the area.

Description of the McLennan County Assessment Area

FNB delineates a portion of McLennan County, which is part of the Waco MSA, as an AA. This AA consists of six CTs (one moderate-income, four upper-income, and one non-income classified). According to 2010 U.S. Census data, the AA has a population of 24,576 and is represented primarily by rural geographies bordering the north and west side of Lake Waco. Census Tract 9800.00 encompasses Airport Park and the Waco Regional Airport, which contain no housing, and is therefore classified as a non-income CT.

FNB's Ranch House branch is the only branch facility in this AA. The branch is located 10 miles south of Mills Valley in the upper-income CT 0029.00, and is bordered by a moderate-income CT, two upper-income CTs, and the non-income CT. According to 2010 Census data, there are no low-income or middle-income CTs in the McLennan County AA. The Bank has properly defined its AA in accordance with the technical requirements of the CRA regulation. The AA consists of whole CTs, does not arbitrarily exclude LMI CTs, and includes the CTs where FNB offices are located. The AA meets requirements of the regulation and does not reflect illegal discrimination.

The AA includes the small cities of China Spring, Crawford, Ocee, Windsor, and Willow Grove. Based on 2010 U.S. Census data, the AA consists of 9,069 households, 6,623 families, and 9,693 housing units. Owner-occupied housing units in the AA total 6,384 and represent 66 percent of total housing. Over 90 percent of owner-occupied housing units are located within upper-income geographies, with less than 10 percent within the moderate-income geography (CT 0030.00). The average median housing value for the AA is \$138,858. Close to 16 percent of households in the AA are low-income and another 11.5 percent are moderate-income. Almost 11 percent of households live below the poverty level, and 43 percent of those households live in the moderate-income geography. The average age of housing stock in the moderate-income geography is 39 years with an average median housing value of \$101,400. There are no low-income or middle-income CTs in this AA. The Bureau of Labor Statistics showed the unemployment rate in McLennan County overall to be 6.6 percent in 2012, which is comparable to the state average of 6.7 percent and well below the national average of 7.9 percent. A more recent AA unemployment rate (as of October 2016) of 4.0 percent compares more favorably to state and national averages of 4.4 percent and 4.9 percent.

The table below summarizes 2010 Census Demographic Data for the McLennan County AA. There are no low-income or middle-income CTs in the AA.

Demographic Information for McLennan County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts (CT)/BNAs)	6	0.00	16.67	0.00	66.67	16.67
Population by Geography	24,576	0.00	14.86	0.00	85.12	0.02
Owner-Occupied Housing by Geography	6,384	0.00	9.54	0.00	90.46	0.00
Business by Geography	1,713	0.00	10.33	0.00	88.09	1.58
Family Distribution by Income Level	6,623	12.94	13.50	17.86	55.70	0.00
Households by Geography	9,069	0.00	20.50	0.00	79.50	0.00
Median Family Income		\$50,886	Median Housing Value		\$92,075	
FFIEC Updated Estimated Median Family Income		\$52,800	Unemployment Rate (BLS)		McLennan County 6.6%	
Households Below Poverty Level		13.76%			Texas 6.7%	
					Nation 7.9%	

Source: 2010 U.S. Census data; Dunn & Bradstreet; 2015 Business Demographic data; FFIEC Estimated Median Family Income.

While FNB’s AA is primarily rural, much of the population commutes into the more urban parts of Waco for work. The city of Waco is a diverse economy, with no industry representing more than 20 percent of the market. Professional, government, and healthcare industry sectors have posted strong growth in the area. The city’s below-average cost of living and proximity to the Dallas/Fort Worth, the cities of Austin and San Antonio, and the Houston area draws skilled talent to high-tech jobs. Major employers in the Waco area include Providence Health Center, Baylor University, Wal-Mart, Waco Independent School District, L-3 Communications (Aerospace), Hillcrest Baptist Medical Center, and the City of Waco.

According to Moody’s Analytics, McLennan County will continue its recent economic growth. The entrance and expansion of technology companies and service firms contribute greatly to growth. Aerospace development firms have spurred an increase in manufacturing. Baylor University continues to increase its student body, which in turn creates jobs and an educated work force. Additionally, Baylor University’s growth stimulates economic prosperity within the area. Residential construction increased with population growth. McLennan County’s proximity to Dallas, Austin, and Houston also helps propel its economic development. The area offers reasonable property costs and cost of living, which combined with location, encourages commercial development.

This AA is more competitive than Bosque County. FNB is disadvantaged by the presence of large national and regional banks, as well as larger community banks and credit unions. According to the FDIC Market Share Report as of June 30, 2016, there are a total of 24 banks operating 57 offices within the AA. First National Bank of Central Texas and Central National Bank hold the top two spots with their respective deposit market shares of 13.09 and 10.59 percent. Wells Fargo Bank, National Association ranks third with a 9.22 percent deposit market share. FNB ranks 23rd in market share with a deposit market share of less than 0.5 percent based on deposits totaling \$20 million. Competition is further heightened by the presence of 14 credit unions operating in the Waco area.

A community contact interview conducted during a recent CRA evaluation of a Waco area bank in close proximity to FNB's Ranch House branch identified the lack of 30-year financing for affordable housing for purchase by LMI borrowers. The contact identified a need for viable alternatives to payday lending for LMI individuals (e.g., short-term loans up to \$1,000).

A review of the PEs of similarly situated financial institutions reveals the lending activity of non-profit community development organizations such as the Waco chapter of NeighborWorks has reduced the overall demand for affordable housing loans for LMI individuals. NeighborWorks is subject to more relaxed mortgage lending standards than area commercial banks and FHA lenders

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The Lending Test analysis that follows evaluates FNB's lending activity as described earlier in the scope section. The factors considered are as follows: (1) Loan-to-Deposit Ratio; (2) Lending in the Assessment Area; (3) Lending to Borrowers of Different Income Levels; (4) Geographic Distribution of Loans; and (5) Response to CRA Complaints.

Overall, FNB's performance under the Lending Test is **Satisfactory**. We focused our review on the Bank's primary lending products, residential real estate and consumer loans originated since the previous CRA examination. We considered the Bank's size, lending capacity and opportunities, branch network, market competition, demographic and economic factors, and overall strategic plan when considering this conclusion. FNB's quarterly loan-to-deposit ratio during the evaluation period is reasonable. The Bank's level of lending among borrowers of different income levels reflects reasonable penetration. Less weight was placed on geographic distribution considering the Bank has few LMI geographies in its AAs. There were no CRA-related complaints during the evaluation period to evaluate the Bank's responsiveness, thus this criterion is not applicable to lending performance.

LOAN-TO-DEPOSIT RATIO

FNB's loan-to-deposit ratio is reasonable. The Bank's quarterly average net LTD ratio of 58.58 percent over the nineteen quarters since the last CRA examination is reasonable given the Bank's size, financial condition, and AA credit needs. During the evaluation period, the Bank's quarterly LTD ratio ranged from a low of 50.17 percent in September 30, 2012, to a high of 67.90 percent in the final quarter of this evaluation period (as of September 30, 2016). This ratio is reasonable compared with other financial institutions of similar size, location, and product offerings which showed to have a quarterly average LTD ratio of 50.69 percent. The low and high quarterly LTD ratio for these institutions was 21.38 percent and 77.82 percent, respectively.

<i>Institution</i>	Assets (as of September 30, 2016)	Quarterly Average LTD Ratio %
First National Bank of Bosque County	115,366	58.58
Grandview Bank	182,049	75.24
The Citizens National Bank of Hillsboro	208,478	21.38
First Security State Bank, Cranfills Gap	111,946	35.01
First National Bank of Burleson	191,730	44.01
First National Bank of Dublin	83,434	77.82

Source: Institution Consolidated Reports of Condition (as of September 30, 2016).

The chart above reflects the quarterly average net LTD ratios for FNB and five similarly situated financial institutions. No inferences are intended from the order the institutions are listed, but FNB lies in the middle of these comparable banks, and thus is reflective of reasonable performance.

LENDING IN ASSESSMENT AREA

A majority of the residential real estate and consumer loans originated during the evaluation period was in the AAs. As such, FNB meets the standards of satisfactory performance for this criterion. As depicted in Table 1 below, the Bank originated 78.06 percent of its loans during the evaluation period inside the AAs. Of the consumer loans sampled, 83.93 percent was originated inside the AAs.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	130	71.82	51	28.18	181	12,908	67.30	6,271	32.70	19,179
Improvement	59	89.39	7	10.61	66	2,188	87.35	317	12.65	2,505
Refinance	38	79.17	10	20.83	48	3,512	81.09	819	18.91	4,331
Consumer	47	83.93	9	16.07	56	304,634	80.67	72,987	19.33	377,621
Totals	274	78.06	77	21.94	351	323,242	80.08	80,394	19.92	403,636

Source: Data reported under HMDA; Consumer Loan Sample.

LENDING TO BORROWERS OF DIFFERENT INCOMES

The distribution of residential and consumer loans to borrowers of different income levels exhibits reasonable penetration when considering the performance context of the AAs, thus FNB meets the standard for satisfactory performance for this criterion. This conclusion is based on an analysis of sampled consumer loans (40) and residential real estate loans (295) originated from January 1, 2012, through December 31, 2015. For both residential real estate loans and consumer loans, we compared the income distribution of the Bank’s borrowers to the income distribution of families within the AAs, using the FFIEC median family income levels. More weight is given to consumer lending considering the home affordability challenges LMI borrowers face.

Full Scope Assessment Area Review – Bosque County

Residential Real Estate Loans

Table 2 - Borrower Distribution of Residential Real Estate Loans in Bosque County								
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
Purchase	17.48	8.79	16.02	24.18	21.69	21.98	44.82	43.96
Improvement	17.48	20.45	16.02	6.82	21.69	25.00	44.82	40.91
Refinance	17.48	10.71	16.02	17.86	21.69	28.57	44.82	39.29

Source: Data reported under HMDA; 2010 U.S. Census data.

As shown in Table 2 above, for certain loan types, FNB’s residential real estate loans (HMDA reported loans) to LMI borrowers is notably lower than the percentage of families in those income levels. While residential lending performance is lower than the demographic comparators in the distribution of home purchase and home refinance loans to low-income borrowers and home improvement loans to moderate-income borrowers, the Bank’s lending reflects reasonable penetration when considering performance context factors. Lower-income applicants typically find it difficult to qualify for loans, and a reduced level of lending to LMI individuals can be expected. In our evaluation, we noted 20.98 percent of AA households are low-income and another 15.02 percent are moderate-income, according to 2010 U.S. Census data. Close to 14 percent of households and 11 percent of families live below the poverty level in the AA. In addition, we considered the average age of the housing stock and the median housing value in the AA. According to 2010 U.S. Census data, the average age of the housing stock is 40 years with a median housing value of \$92,764. Older housing often has higher maintenance costs compared to new housing stock and frequently requires significant repairs to bring dwelling up to code requirements. These older houses are often less energy efficient, resulting in higher utility costs, which can increase home ownership costs. These additional factors and costs negatively affect the ability of LMI

borrowers to qualify for mortgage loans. Please refer to housing-related discussion in the Description of Assessment Areas section of this PE for the Bosque County AA. FNB’s overall distribution of residential loans to LMI borrowers in this AA is reasonable.

Consumer Loans

Table 2B - Borrower Distribution of Consumer Loans in Bosque County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	21.05	44.44	15.02	29.63	16.35	22.22	47.58	3.07

Source: Data collected by the bank; Consumer Loan Sample; 2010 U.S. Census data.

As reflected in Table 2B above, FNB’s percentage of the number of consumer loans that it originated to LMI borrowers significantly exceeds the percentage of AA households that fall within the low- and moderate-income levels. Thus, FNB’s consumer lending performance is more than reasonable.

Full Scope Assessment Area Review – McLennan County

Residential Real Estate Loans

Table 3 - Borrower Distribution of Residential Real Estate Loans in McLennan County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Purchase	12.94	0.00	13.50	7.69	17.86	20.51	55.70	71.79
Improvement	12.94	0.00	13.50	13.33	17.86	26.67	55.70	60.00
Refinance	12.94	0.00	13.50	20.00	17.86	30.00	55.70	50.00

Source: Data reported under HMDA; 2010 U.S. Census data.

As reflected in Table 3 above, with the exception of improvement and refinance loans to moderate-income borrowers, FNB’s performance is lower than demographic comparators to LMI borrowers. However, this performance is reasonable when considering performance context. Low-income applicants typically have difficulty qualifying for residential loans. According to the 2010 U.S. Census, 15.9 percent of households in the AA are low-income and another 11.7 percent are moderate-income. Those households living below the poverty rate are close to 10.5 percent. The average age of the housing stock is 39 years in the moderate-income CT with a median housing value of \$101,400. As noted earlier, older housing often has higher maintenance costs and frequently requires significant repairs to meet code requirements. Older houses are

often less energy efficient and result in higher utility costs that increase home ownership costs. On average, housing stock in the AA is 28 years old with a median housing value of \$148,514. LMI borrowers face these and many other factors that can limit their ability to qualify for conventional mortgage loan financings. Please refer to housing-related discussion in the Description of Assessment Areas section of this PE for more detail of the McLennan County AA. FNB’s overall distribution of home loans to LMI borrowers in this AA is reasonable.

Consumer Loans

Table 3B - Borrower Distribution of Consumer Loans in McLennan County								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	15.88	40.00	11.42	30.00	15.33	15.00	57.37	15.00

Source: Data collected by the bank; Consumer Loan Sample; 2010 U.S. Census data.

As reflected in Table 3B above, FNB’s percentage of the number of consumer loans originated to LMI borrowers significantly exceeds the percentage of AA households that fall within low- and moderate-income levels. The penetration of consumer lending across all income categories is more than reasonable.

GEOGRAPHIC DISTRIBUTION OF LOANS

FNB’s geographic distribution of residential and consumer loans to moderate-income CTs reflects reasonable dispersion when considering performance context factors addressed in the Description of the Assessment Areas section of the PE. Less weight is given to the geographic distribution of loans as a result of the few LMI geographies in the Bank’s AA.

Full Scope Assessment Area Review – Bosque County

Residential Real Estate Loans

Table 4 - Geographic Distribution of Residential Real Estate Loans in Bosque County								
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
Purchase	0.00	0.00	0.00	3.30	79.54	82.42	20.46	14.29
Improvement	0.00	0.00	0.00	0.00	79.54	81.82	20.46	18.18
Refinance	0.00	0.00	0.00	3.57	79.54	71.43	20.46	25.00

Source: Data reported under HMDA; 2010 U.S. Census data.

Table 4 above reflects the percent of the number of residential loans FNB originated compared to the percent of owner-occupied housing in each CT income level. The table was populated based on the most recent demographic information, knowing the Bank's CTs did not change from the previous CRA exam. We learned once the table was populated and from researching demographic data that a change in the income classification of one particular tract (9502.00) had occurred. The subject CT was middle-income at the previous CRA examination, but was changed to moderate-income for two years following the 2010 U.S. Census effective January 1, 2012. The income classification of this CT was again changed effective January 1, 2014, back to middle-income where it currently remains.

For the four-year period (2012 through 2015), FNB originated 163 residential real estate loans in the Bosque County AA, of which 91 were for purchase, 44 for improvements, and 28 for refinances. The 3.30 percent in purchase loans represents three purchase loans out of a total 91 purchase loans originated for the period in the amount of \$136 thousand. The 3.57 percent represents one refinance loan in the amount of \$14 thousand out of the total 28 refinance loans the bank originated for the period. This lending performance is reasonable given owner-occupied housing in the CT are limited to 285 units, which represents only 5.6 percent of a total 5,079 in owner-occupied housing units in the AA.

Consumer Loans

As depicted in Table 4B below, any geographical analysis of FNB's consumer lending is not meaningful given the AA does not contain low- or moderate-income CTs.

Table 4B - Geographic Distribution of Consumer Loans in Bosque County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	0.00	0.00	79.87	77.78	21.03	22.22

Source: Data collected by bank; Consumer Loan Sample; 2010 U.S. Census data.

Full Scope Assessment Area Review – McLennan County

Residential Real Estate Loans

Table 5 - Geographic Distribution of Residential Real Estate Loans in McLennan County								
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
Purchase	0.00	0.00	9.54	2.56	0.00	0.00	90.46	97.44
Improvement	0.00	0.00	9.54	0.00	0.00	0.00	90.46	100.00
Refinance	0.00	0.00	9.54	0.00	0.00	0.00	90.46	100.00

Source: Data reported under HMDA; 2010 U.S. Census data.

Table 5 above reflects the percent of the number of residential loans FNB originated during the four-year evaluation period compared to the percent of owner-occupied housing in each CT income level. There are no low-income or middle-income geographies in this AA, thus lending activity is zero. However, the AA does contain one moderate-income geography (CT 0030.00). The Bank’s lending opportunities in this CT are limited by rate of poverty, limited number owner-occupied housing units, average median housing value, and aging housing stock in this moderate-income CT. FNB originated only one home purchase loan in the amount of \$84 thousand, which represented 2.56 percent of all purchase loans originated in the AA in this moderate-income CT for the evaluation period. The Bank did not originate any home improvement or refinance loans in its moderate-income CT. Lending opportunities are further restricted by increased competition from larger institutions with much higher deposit market share and more accessibility to LMI geographies. Additionally, the Bank conducts little to no advertising or marketing. The percentage of the Bank’s residential lending is lower than the demographic comparators and reflective of poor dispersion but performance is reasonable when considering performance context factors.

Consumer Loans

Table 5B - Geographic Distribution of Consumer Loans in McLennan County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	0.00	0.00	20.50	0.00	0.00	0.00	79.50	100.00

Source: Data collected by bank; Consumer Loan Sample; 2010 U.S. Census data.

Table 5B above illustrates the extent to which FNB’s consumer lending in the moderate-income CT (0.00) is below the percentage of households in the moderate-income geographies (20.50 percent). This dispersion of the Bank’s consumer loans is explained by performance context factors. The proximity of the single branch serving the AA, increased competition, and the Bank conducting little or no advertising or marketing in the AA restricts the Bank’s lending opportunities. The percentage of the Bank’s consumer lending is reasonable when considering performance context factors.

RESPONSES TO COMPLAINTS

FNB has not received any complaints regarding its CRA performance during the evaluation period, and therefore this criterion is not applicable.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by FNB, or in any assessment area by an affiliate whose loans have been considered as part of the Bank’s lending performance.

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