



PUBLIC DISCLOSURE

November 17, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 18609

729 W. 7th
Spearman, TX 79081

Office of the Comptroller of the Currency

5225 South Loop 289
Suite 108
Lubbock, TX 79424-1319

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 First National Bank – Spearman’s (FNB) CRA performance is Satisfactory. The rating is based on the following:

- FNB’s quarterly average net loan-to-deposit (LTD) ratio of 62 percent is more than reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank's loans, 83 percent by number, were made to borrowers in the AA.
- FNB has a reasonable penetration of loans to businesses of different sizes and to borrowers of various income levels.

SCOPE OF EXAMINATION

This Performance Evaluation assesses FNB’s record of meeting the credit needs of the community in which it operates. We evaluated FNB using small bank performance criteria, including LTD ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, geographic distribution, and responses to CRA-related complaints.

To evaluate FNB’s lending performance, we selected a random sample of loans from the bank’s primary loan types. Primary loan types are those products that were originated at the highest percentage by number or dollar amount of loans. We sampled 29 commercial loans and 29 consumer loans originated between January 1, 2012 and December 31, 2014.

DESCRIPTION OF INSTITUTION

FNB is a community bank headquartered in Spearman, Texas, located in the northern Texas panhandle. FNB is an intrastate bank with three branches located in Spearman, Dumas, and Perryton, Texas. The bank is wholly owned by Spearman Bancshares, a one-bank holding company. As of September 30, 2014, FNB had total assets of \$197 million, with net loans and leases comprising 58 percent of this total. The bank’s loan products include business, farm, consumer, and residential real estate. The following table depicts FNB’s loan portfolio composition.

Loan Portfolio Composition as of December 31, 2013				
Loan Type	\$000 of Loans	% of \$	# of Loans	% of #
Commercial and CRE	51,873	44.46	279	19.33
Agricultural and Farm Real Estate	40,478	34.69	222	15.38
Residential Real Estate	17,959	15.39	155	10.74
Consumer	4,505	3.86	611	42.34
Political Subdivisions and Other	1,861	1.60	176	12.21
TOTAL	116,676	100.00	1443	100.00

Source: September 30, 2014 Call Report

The bank offers a full range of traditional commercial and consumer banking products and related financial services. Bank lobby and drive-through services are provided Monday through Friday. The bank provides 24-hour access to banking services through telebanking and its website at www.fnbspearman.com. Internet banking services include account balance inquiries, funds transfers, and bill pay.

Management and the Board’s primary business strategy is to serve commercial, agricultural, and retail customers in Hansford, Moore, and Ochiltree counties. FNB was rated “Satisfactory” at the previous CRA examination dated November 14, 2008. FNB has no legal or financial circumstances that impede the bank’s ability to help meet the credit needs in its AA.

DESCRIPTION OF ASSESSMENT AREA

FNB has designated Hansford, Moore, and Ochiltree Counties as its assessment area (AA). These contiguous counties are located in the northern Texas panhandle. The AA consists of whole counties and no low- or moderate-income areas are arbitrarily excluded. The largest cities within the AA include Spearman, Dumas, and Perryton. Federal agencies have designated one census tract in Ochiltree County as an underserved middle-income tract. Demographic and economic data for the AA are listed in the following table.

Demographic and Economic Characteristics of Hansford, Moore, and Ochiltree Counties	
<i>Population</i>	
Number of Families	9,047
Number of Households	12,205
<i>Geographies</i>	
Number of Census Tracts	9
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	55.56%
% Upper-Income Census Tracts	44.44%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$54,227
2012 HUD-Adjusted MFI	\$49,300
2013 HUD-Adjusted MFI	\$50,500
2014 HUD-Adjusted MFI	\$51,600
<i>Economic Indicators</i>	
Unemployment Rate	3.72%
2013 Median Housing Value	\$80,517
% of Households Below Poverty Level	12.15%

Source: 2010 Census data and HUD updated income data.

Based on 2010 Census data, the AA has a total population of 37,740. There are 14,192 housing units in the AA, of which 59 percent are owner-occupied, 27 percent are renter-occupied, and 14 percent are vacant. Approximately 17 percent of families are low-income, 17 percent are moderate-income, 16 percent are middle-income, and 50 percent are upper-income.

Local economic conditions remain stable with low unemployment of 3.72 percent. Economic activity is centered in oil and gas, agriculture, and wind energy. The primary employers in the AA are the school districts, hospitals, and oil field service companies. Competition from other financial institutions is high. There are 10 other financial institutions within the AA. Among these, FNB Spearman ranks fourth in deposit market share at 13 percent.

We interviewed two community contacts for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and ascertaining the performance of local financial institutions. Neither contact identified any unmet credit needs in the community, but stated that local financial institutions continue to remain involved in funding community projects and participating in community service and development projects. The public perception of these institutions remains positive.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly average net loan-to-deposit ratio from September 30, 2008 through June 30, 2014 was 62 percent. During the evaluation period, FNB's loan-to-deposit ratio ranged from a low of 54 percent in March 2013 to a high of 69 percent in June 2014. The average loan-to-deposit ratio of similarly situated banks over the same time period was 43 percent. Similarly situated banks are those with total assets from \$100 million to \$250 million that operate in the bank's AA. The quarterly average LTD ratios of FNB and similarly situated banks in the AA are listed below.

Loan-to-Deposit Ratios		
Institution	Total Assets \$000s As of 6/30/14	Average Loan-to- Deposit Ratio
First National Bank - Spearman	187,207	61.78
First State Bank	124,690	49.99
The Perryton National Bank	169,211	28.21
Interstate Bank, SSB	194,315	51.89

Lending in Assessment Area

FNB Spearman originates a majority of loans inside the AA. We reviewed 29 consumer and 29 business loans originated from 2012 to 2014 to assess performance under this test. We found that 83 percent by number and 40 percent by dollar were originated within the AA. The reason for the difference in these percentages is primarily from one large out of area participation in our sample. The breakdown by loan category is illustrated by the following table:

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	26	89.7	3	10.3	29	340	86.4	54	13.6	394
Business Loans	22	76.7	7	23.3	29	3430	37.8	5,642	62.2	9,072
Totals	48	82.8	10	17.2	58	3,770	39.8	5,696	60.2	9,466

Source: sample of loans used for CRA performance analysis

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

FNB's borrower distribution reflects an overall reasonable penetration, based on reasonable penetration among businesses of different sizes and reasonable penetration among households of different income levels.

The distribution of commercial loans reflects reasonable penetration among businesses of different sizes. By number, about 64 percent of commercial loans were originated to businesses with gross annual revenues of \$1 million or less. This is somewhat below demographic data which shows 70 percent of the businesses in the bank's AA have gross annual revenues less than or equal to \$1MM. Because the demographic data shows that revenues are unavailable or unknown for 28 percent of businesses in the AA, we also reviewed the distribution of loan sizes within the sample (as a proxy). We found that 41 percent of the loans in the sample (by number) were under \$100,000, which provides additional support for a reasonable distribution of loans to smaller businesses.

Borrower Distribution of Business Loans in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69.55	2.85	27.60	100%
% of Bank Loans in AA by #	63.64	36.36	0	100%
% of Bank Loans in AA by \$	40.96	59.04	0	100%

Source: Loan sample; 2013 Dunn and Bradstreet data.

Borrower Distribution of Business Loans in AA (proxy)				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	12	41.4	629	6.9
\$100,001 - \$250,000	5	17.2	701	7.7
\$250,001 - \$500,000	5	17.2	1,600	17.6
\$500,001 - \$1,000,000	6	20.7	4,306	47.5
Over \$1,000,000	1	3.4	1,836	20.2

Source: sample of loans used for CRA performance analysis

The distribution of consumer loans reflects reasonable penetration to low-income borrowers and excellent penetration to moderate-income borrowers. The borrower distribution of consumer

loans to moderate-income households (27 percent) is excellent, as it significantly exceeds the demographic of 17 percent. The borrower distribution of consumer loans to low-income households (19 percent) is reasonable, as it exceeds the demographic of 17 percent. The following table shows the results of our sample of consumer loans.

Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	16.85	19.23	16.59	26.92	16.58	23.08	49.98	30.77

Source: loan sample or data collected by the bank; U.S. Census data.

Geographic Distribution of Loans

Because no census tracts are identified as low- or moderate-income, this analysis is not meaningful and was not performed.

Responses to Complaints

FNB has not received any CRA-related complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices, in any geography by the bank or in any AA 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.