



PUBLIC DISCLOSURE

September 25, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Lake Jackson
Charter Number 15171

122 West Way
Lake Jackson, TX 77566

Office of the Comptroller of the Currency

ADC-HOUSTON (8530) Field Office
1301 McKinney Street Suite 1410
Houston, TX 77010-3031

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, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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Overall CRA Rating

The institution is rated Satisfactory.

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

- Lending in the assessment area (AA) is excellent. A substantial majority of loans by number and dollar volume originated within the AA.
- FNB maintained a quarterly loan-to-deposit (LTD) ratio that is reasonable given the bank's performance context.
- Lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration and meets the standards for satisfactory performance.
- The geographic distribution of loans reflects excellent dispersion.
- The bank did not receive any complaints related to CRA performance during the evaluation period.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development (CD): Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the lending, investment, and service tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the lending, investment, and service tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

FNB Lake Jackson is a single-state community bank headquartered in Lake Jackson, Texas. The bank is wholly owned by a holding company, Austin Colony, Inc. Both the holding company and FNB's main office are located at 122 West Way in Lake Jackson. The bank has a branch located on 100 East San Bernard in Brazoria, Texas. Both locations are in middle-income CTs, have accessible lobby hours, and automated teller machines.

The bank is a full-service institution and offers a variety of traditional loan and deposit products to retail and commercial customers. Deposit products consist of business and personal checking accounts, money market accounts, individual retirement accounts, savings accounts, and certificates of deposit. The bank also offers online banking services and 24 hour bank by phone.

As of June 30, 2017, the bank's assets total \$257 million, with a tier 1 leverage capital ratio of 10.67 percent. Assets are centered in investment securities at approximately 65 percent of total assets, and net loans comprise approximately 9 percent of total assets. Public funds comprise approximately 40 percent of total deposits. FNB's primary products are business loans by dollar volume at \$17.7 million and consumer loans by number, which comprise 65 percent of loans. Residential loans are not a primary product at only \$1.5 million by dollar volume.

FNB has 3.79 percent of deposit market share and is ranked sixth among financial institutions in Brazoria County. According to the Federal Deposit Insurance Corporation (FDIC), the largest competitors in terms of deposit market share are Wells Fargo Bank (45.89 percent), JP Morgan Chase Bank (8.6 percent), Bank of America (5.06 percent), Compass Bank (4.94 percent), and Texas Gulf Bank (4.52 percent). The bank's most influential competitor for residential loans is Texas Dow Employees Credit Union (TDECU), which is a \$3 billion institution located in Lake Jackson, Texas. TDECU has a special mortgage lending center, brokerage office, and title company. Highly competitive rates, terms, products, and services offered by TDECU contribute to a significantly competitive banking environment for residential lending.

During the evaluation period, a representative of the FDIC made contact with a local realtor/developer in the community and noted that general banking and credit needs are centered in commercial lending. The contact indicated that local credit unions are providing competition to banks, especially the national banks. Local financial institutions are very active in the community for charitable events, education, and community development.

There are no legal or financial factors that impede FNB's ability to help meet the credit needs of the AA. FNB received a rating of satisfactory at its last CRA evaluation, dated May 14, 2012.

Scope of the Evaluation

Evaluation Period/Products Evaluated

FNB was evaluated under the small bank examination procedures, which include the lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through lending activities. Our examination evaluated the bank's performance from January 1, 2015 through June 30, 2017.

We reviewed the total population of business loans and a statistically valid sample of 90 consumer loans originated during the evaluation period. We reviewed 74 business loans totaling \$20.66 million and 77 consumer loans totaling \$1.67 million.

Data Integrity

Data integrity was not performed. We populated loan information that we used for the analyses.

Selection of Areas for Full-Scope Review

FNB's AA consists of Brazoria County, which is part of the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA). We performed a full-scope review of the Houston-The Woodlands-Sugar Land MSA AA. Please refer to the table in appendix A for more information.

Ratings

The bank's overall rating is based primarily on observed performance as well as context information from the Houston MSA AA.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

Lending tests indicate that FNB meets the standards for satisfactory performance. There were no discriminatory lending practices identified during the evaluation period.

LENDING TEST

Overall, performance under the lending test is satisfactory.

Loan-to-Deposit Ratio

The bank meets the standard for satisfactory performance. The LTD ratio is below average, but is reasonable given the bank's performance context. The performance context includes intense competition from larger banks and credit unions, significant public funds, and a smaller base of customer deposits than competing banks.

The bank's quarterly LTD ratio averaged 9.18 percent since the prior CRA evaluation. The average LTD ratio for a peer group of four banks headquartered in Brazoria County, with total asset sizes between \$130 million and \$255 million, was 46.16 percent, ranging from a low of 20.70 percent to a high of 85.37 percent.

Excluding deposits over \$250 thousand, FNB's LTD ratio for the last eleven quarters averaged 28.87 percent, as of June 30, 2017. The average LTD ratio, excluding deposits over \$250 thousand, for the same peer group of four banks headquartered in Brazoria County was 81.07 percent, ranging from a low of 26.93 percent to a high of 173.93 percent.

Excluding public funds, FNB's LTD ratio for the last eleven quarters averaged 15.47 percent, as of June 30, 2017. The average LTD ratio, excluding deposits over \$250 thousand, for the same peer group of banks headquartered in Brazoria County was 54.34 percent, ranging from a low of 21.92 percent to a high of 115.01 percent.

Lending in Assessment Area

Lending in the AA is outstanding. A substantial majority of primary loan products by number and dollar volume originated during the review period were inside the bank's AA. Our sample of 90 consumer loans and 74 business loans, originated from January 1, 2015, through June 30, 2017, disclosed 90.24 percent by number and 83.82 percent by dollar volume originated within the AA. The bank's performance is shown in the following table:

Table 1 - Lending in Brazoria County										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	77	85.56	13	14.44	90	1,555	92.83	120	7.17	1,675
Commercial	71	95.95	3	4.05	74	17,164	83.09	3,492	16.91	20,656
Totals	148	90.24	16	9.76	164	18,719	83.82	3,612	16.18	22,331

Source: Loan sample.

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

Overall, the level of lending to borrowers of different incomes and to businesses of different sizes is reasonable.

Business Loans

The distribution by number of loans in the AA at 66.20 percent and by dollar volume of loans at 41.26 percent for businesses with annual revenues of \$1 million or less range lower than the ratio of the AA characteristics. The bank's performance is shown in the following table:

Table 2A - Borrower Distribution of Loans to Businesses in Brazoria County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	86.26	3.83	9.91	100%
% of Bank Loans in AA by #	66.20	30.99	2.82	100%
% of Bank Loans in AA by \$	41.26	58.40	0.34	100%

Source: Dun and Bradstreet data; 2010 US Census.

Consumer Loans

The borrower distribution for consumer loans to low- and moderate-income borrowers is excellent. The penetration of low-income and moderate-income households by number exceeds the AA characteristics. The bank's performance is shown in the following table:

Table 2B - Borrower Distribution of Consumer Loans in Brazoria 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	20.05	22.08	13.93	20.78	16.92	9.09	49.09	48.05

Source: 2010 U.S. Census data.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects an excellent penetration among households of different income levels and businesses of different sizes. There were no conspicuous gaps identified in the geographic distribution.

Business Loans

The geographic distribution of business loans reflects excellent dispersion of loans to borrowers of different income levels. Dispersion of loans to moderate-income CTs is excellent, with reasonable dispersion of loans to low-income CTs. The bank's performance is shown in the following table:

Table 3A - Geographic Distribution of Loans to Businesses in Brazoria County								
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
	1.52	0.00	9.54	25.35	41.28	59.15	47.66	15.49

Source: D & B data; 2010 US Census.

Consumer Loans

The bank's geographic distribution of consumer loans reflects an excellent dispersion in moderate-income CTs and reasonable dispersion for low-income CTs. The banks performance is detailed in the following table:

Table 3B - Geographic Distribution of Consumer Loans in Brazoria 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	1.68	0.00	8.96	12.36	46.54	70.79	42.82	16.85

Source: 2010 U.S. Census data.

Responses to Complaints

The bank did not receive any complaints related to CRA performance during the evaluation period.

Community Development Activities

FNB is actively involved in community programs and organizations that serve low-income and moderate-income individuals in the AA. Several FNB Board members serve as Board members to various community organizations. During the evaluation period, we reviewed 15 qualified CD donations to four organizations within Brazoria County. Bank officers provided 94 hours of volunteer financial literacy to an organization that serves children in the community.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD loans): 01/01/2015 to 06/30/2017	
Financial Institution	Products Reviewed	
FNB Lake Jackson Lake Jackson, Texas	90 Consumer Loans 74 Business Loans (100% Business Loans reviewed)	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Houston-The Woodlands-Sugar Land MSA	Full Scope	

Appendix B: Community Profiles for Full-Scope Areas

Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA)

Demographic Information for Full-Scope Area: (Name of Multistate Metropolitan Area)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	50	2.00	14.00	58.00	26.00	0.00
Population by Geography	33,741	1.75	8.38	47.27	42.60	0.00
Owner-Occupied Housing by Geography	124,547	1.74	10.14	47.59	40.53	0.00
Businesses by Geography	18,625	1.52	9.54	41.28	47.66	0.00
Farms by Geography	513	0.39	6.04	63.35	30.21	0.00
Family Distribution by Income Level	82,536	1.53	8.59	45.20	44.68	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	112,510	20.05	13.93	16.92	49.09	0.00
Median Family Income HUD Adjusted Median Family Income for 2015 Households Below the Poverty Level	= \$71,500 = \$69,749 = 10.62%	Median Housing Value Unemployment Rate		= \$143,290 = 3.48%		

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census, and 2016 HUD updated MFI.

FNB has one AA, Brazoria County AA, which is located in Texas and meets the requirements of the regulation. The AA is included in the Houston-The Woodlands-Sugar Land MSA. According to U.S. Census Bureau (USCB), the AA had an estimated population of 354 thousand in 2016, with a median household income of \$69,749 in 2015. From 2010 to 2016, the AAs population grew by 13.1 percent, or 41 thousand net residents, added according to USCB.

Median housing value is \$143,290 according to the USCB. Residents below the poverty line were 10.62 percent of the AA total population, as of July 1, 2016. According to the Bureau of Labor Statistics, the unemployment rate was 5.6 percent during August of 2017.

Cities located in Brazoria County include Alvin, Angleton, Bailey's Prairie, Brazoria, City of Hillcrest Village, Clute, Freeport, City of Iowa Colony, Lake Jackson, Manvel, Pearland, Richwood, Surfside Village, Sweeny, Village of Bonney, Village of Jones Creek, and West Columbia. Pearland is the largest city within the AA, with a population of 113,570 residents. Angleton is the county seat. FNB's main office and branch serve the Brazosport area's banking needs, and both offer the same products, services, and rate pricing.

The AA is currently comprised of 50 CTs, separated into the four income categories. In 2016, there were no low-income CTs. In 2017, one moderate-income CT was converted to a low-income CT and one moderate-income CT was converted to a middle-income CT. See the table listed above.

The largest employers in Brazoria County are Dow Chemical Company, Fluor Corporation, Zachary Group, Alvin Independent School District (ISD), Pearland ISD, Brazosport ISD, Texas Department of Criminal Justice, The Infinity Group, Brock Group, and local government offices.

According to the USCB, Brazoria County has a strong manufacturing base, where \$32.9 billion total manufacturing shipments outpaced total retail sales of \$3.7 billion in 2012. The number of business firms were 25,895 during 2012, with \$4.4 billion spent on payroll and wages in 2015. Information on the five largest employers in the AA is shown in the following table:

Table 2: Five Largest Employers in Assessment Area

Name of Employer	Location	Line of Business	# of Employees
The Dow Chemical Company	Freeport	Chemical	4,200
Fluor Corporation	Freeport	Specialty Contractor	3,161
Zachary Group	County-wide	Specialty Contractor	2,821
Alvin ISD	Alvin	Education	2,781
Pearland ISD	Pearland	Education	2,524

Source: *brazoriacountytx.gov*