



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**March 12, 2012**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Fort Hood National Bank  
Charter Number 15606

Building No. 137, Hood Road  
Fort Hood, TX 76544-0900

Office of the Comptroller of the Currency  
Southern District  
ADC - San Antonio (8508) Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 78216-4133

**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 the 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 “Needs to Improve.”**

Fort Hood National Bank’s (FHNB) overall Community Reinvestment Act (CRA) performance is considered “Needs to Improve,” tied to a loan-to-deposit (LTD) ratio that is less than reasonable. While there are limited lending opportunities in the assessment area (AA) and other relevant factors that have impacted the bank’s LTD ratio, lending to consumers in the AA is unreasonably low. Commercial participations purchased cannot be considered for CRA credit since the OCC gives credit for these loans at the affiliate bank, First National Bank Texas. The following summarizes the bank’s performance:

- FHNB’s loan-to-deposit (LTD) ratio is less than reasonable and averaged 13.4% over the past 18 quarters since the previous CRA Performance Evaluation (PE). The bank’s customer base and market niche is unique and results in a lower-than-average LTD ratio, but consumer loan volume has steadily declined since 2007.
- FHNB serves a military population, and has designated its customer base as its AA. Lending volume in the designated AA is outstanding, with 96% of sampled loans originated to AA borrowers.
- Borrower distribution of loans to low- and moderate-income (LMI) individuals reflects outstanding penetration. This pattern of lending exceeds the standard for satisfactory performance.
- There have been no complaints with respect to FHNB’s performance under the CRA.

### **SCOPE OF EXAMINATION**

This CRA examination covers the time period since the last CRA examination in November 2007. Our analysis included a sample of 26 consumer loans originated between January 2009 and January 2012. Consumer loans constitute a modest percentage of the bank’s loan portfolio, and are considered the primary product of this financial institution based on the number of loans generated and the bank’s market niche. Commercial real estate loans constitute a much higher percentage of the loan portfolio. However, this loan product was not included in our analysis because all of these loans were purchased from the affiliate bank, First National Bank Texas (FNBTX) headquartered in Killeen, Texas, and these loans have historically been included in the FNBTX CRA examination. Therefore, these loans cannot be evaluated for CRA credit at FHNB.

### **DESCRIPTION OF INSTITUTION**

The bank is 100% owned by First Community Bancshares, Inc., a two-bank holding company, and is affiliated through common ownership with FNBTX. FHNB is primarily located on the Fort Hood Army Post. As of December 31, 2011, the bank had total assets of \$222 million and total loans of \$35 million, which represents 15.8% of total assets. Deposit market share for Bell and Coryell Counties is only 6%, compared to the affiliate FNBTX, which has 12% market share in the same geographical area. FHNB’s market niche is consumer lending, especially small dollar loans. About 22% of consumer loans are Fresh Start Loans, which are loans originated to take an overdraft deposit account and allow the customer to pay it off over a short term. FHNB does not charge interest or fees for Fresh Start Loans. For credit qualified individuals, the bank originates Smart Cash loans,

which are also a small dollar unsecured loan product that represent about 5% of the consumer portfolio. FHNB also offers other standard consumer loans such as automobile loans. All consumer loans total approximately 10.2% of the entire loan portfolio and continue to be a high volume product for FHNB, even though the total volume of outstanding consumer loans has declined significantly since 2007. The entire FHNB commercial real estate portfolio consists of loans purchased from FNBTX, which were not evaluated. FHNB's loan portfolio as of December 30, 2011, is detailed in the following table.

<b>Loan Portfolio Composition as of December 30, 2011</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Real Estate (RE) Residential (1-4 Family)	2,168	6.1
RE Multifamily	5,444	15.3
RE Nonfarm Nonresidential	24,218	68.3
Consumer Loans	3,641	10.3
<b>Total Loan Portfolio</b>	<b>\$35,471</b>	<b>100.0%</b>

There are no financial impediments at this time that affect FHNB's ability to meet the credit needs of its community. FHNB has recently been named as a defendant in a lawsuit pertaining to its overdraft program and order of payment processing; this lawsuit has the potential to impact the bank's CRA rating in the future.

FHNB faces strong competition for the consumer market from area banks, credit unions, pawn shops, captive finance companies, and quasi-governmental agencies such as the Army and Air Force Exchange Service. Additionally, the bank's lending activities are adversely affected by continued troop deployment overseas from the Fort Hood Army Post.

Seven of the bank's eight full-service offices are located on the Fort Hood Army Post. Three of the offices are located in a moderate-income census tract (CT) and four are located in a middle-income CT. The eighth branch was recently added, and is in Copperas Cove, just outside Fort Hood; this location is in a middle-income CT. Two of the locations are open seven days a week. The bank also has 68 automatic teller machines (ATMs) located on the Fort Hood Army Post. None of these ATMs take deposits. FNBTX has several branches and numerous ATMs located in FHNB's AA, and provides certain banking services to FHNB's customers. The bank also has a 24-hour toll-free telephone number that allows customers to obtain deposit account information and apply for loans by telephone. FHNB accepts new account applications, loan applications, and customer service requests through its Internet website, and offers Bill Pay for Internet Banking customers.

***FHNB's CRA performance was rated "Satisfactory" at the last evaluation dated November 7, 2007.***

## **DESCRIPTION OF ASSESSMENT AREAS**

As allowed by the CRA regulation, FHNB defines its AA as its entire customer deposit base, which consists mostly of military personnel. FHNB considers its primary customers to be active duty and retired military personnel and their dependents located at the Fort Hood Army Post, and existing customers who move on to other national and international military installations. Marketing efforts

are primarily directed to military personnel at Fort Hood, Texas. Fort Hood borders the central Texas City of Killeen. Fort Hood is the largest United States military installation. However, soldiers assigned to Fort Hood have declined by approximately 20% over the evaluation period, with actual personnel levels at Fort Hood fluctuating during that time. Currently, about 25% of the soldiers assigned to Fort Hood are deployed overseas. As of February 15, 2012 there were 44 thousand active troops assigned to Ft. Hood base, of which approximately 16 thousand lived on Post. The bank provides banking services to a number of retirees that do not live on Post. Overall, the bank has 44,800 bank deposit accounts within 31,800 individuals.

Management has identified small consumer loans as the primary credit need for their target market. To gather updated information on the AA and possible credit needs, we contacted a key civilian on Fort Hood that helps with mission support, as well as the Killeen Economic Development Corporation. The contact indicated they are not aware of unmet credit needs pertaining to the population of Fort Hood and further stated that area banks are active in the community and responsive to local credit needs. FHNB has a very strong presence on Fort Hood, and is actively involved in financial literacy education to help ensure fiscal fitness of soldiers. They also work closely with the command group to generate and implement suggestions to better meet the needs of the Fort Hood community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FHNB's LTD ratio is low, and is less than reasonable given the bank's asset size, financial condition, competitive factors, and lending opportunities within its AA. The LTD ratio averaged only 13.4% over the past 18 quarters that ended December 31, 2011, and was 18.1% as of December 31, 2011. The *average ratio* of 13.4% has decreased from the prior CRA examination's average ratio of 21%. The decline in consumer loans is attributed in part to general economic decline and reduced loan demand. But there are also other contributing factors:

- FHNB had a \$3 million portfolio of student loans that it was required to sell to the government in 2010; and
- FHNB made some changes to its Overdraft Program, which resulted in a decline in its Fresh Start Loan portfolio, with 4% fewer deposit customers using overdraft privilege from 2007 to 2011.

The bank offers credit throughout its entire AA; however, all of its facilities are located on the Fort Hood Army Post. The only exception is a new branch location in Copperas Cove, which is located directly outside the Post, and functions primarily as a service center for the retired population that live in Copperas Cove. The primarily on-Post location of its branches and the nature of its customer base limits FHNB's lending opportunities. We noted the important role of affiliate bank FNBTX in serving the credit needs of the communities outside the boundaries of Fort Hood. In order to more actively participate in those areas off-Post, FHNB has purchased interests in primarily local commercial real estate loans from FNBTX. However, CRA credit is given to FNBTX for commercial loan volume generated.

***The LTD ratio is understandably lower than average for many reasons, but the current level of lending needs improvement, especially given the bank's stated niche in consumer lending.***

- The bank originates a very high volume of small dollar, short-term consumer loans, which represent its market niche. The nature of these small dollar, short-term loans contributes to an overall lower LTD ratio. However, consumer loans have steadily declined since 2007, by about \$6.5 million. The ratio of consumer loans to deposits was about 5.6% at year-end 2007, and is now only 1.9% as of year-end 2011. About 22% of consumer loans are Fresh Start Loans, which are loans originated to take an overdraft deposit account and allow the customer to pay it off over a short term. These loans include both principal and fees charged by the bank, and are viewed less favorably for CRA purposes.
- FHNB receives very few residential home loan applications since the military provides housing or housing allowances to the soldiers and the average tour of duty at the post is only three years.
- Because of the nature of the military and the transient patterns of that population, there is extremely limited demand for business loans on Post and FHNB does not offer them. Management reports that the military discourages soldiers from starting outside businesses due to mobility requirements.
- Business and residential loan demand for FHNB's AA is generally referred to the FNBTX affiliate. Between 2008 and 2011, First Community Mortgage (a division of FNBTX) made just over one thousand loans to FHNB customers totaling \$146 million dollars. This lending represents approximately 25% of lending volume out of the Mortgage Company. CRA credit for mortgage lending was included in the most recent FNBTX CRA evaluation. FHNB does not keep statistics on business loan referrals to FNBTX, but reported volume is not significant given lack of demand for this type of loan product.
- Competition for deposits and loans from the military populace is strong, and Fort Hood lacks a competitive advantage due to the fact that soldiers who arrive there already have a primary banking relationship established elsewhere. This is because the military offers no basic training courses on Fort Hood, and soldiers are required to have bank accounts for direct deposit purposes when in-processing into the military.

It is not helpful to compare FHNB to other banks that operate in the Killeen area due to substantial differences in their customer bases and primary products. The asset size and LTD ratio for FHNB and other military-focused banks are summarized in the following table. It should be noted that other military banks typically have a stronger branch network in communities outside of military posts, or they operate on multiple military installations, which provides additional lending opportunities. First Navy Bank is the only similarly situated institution with an LTD ratio as low as FHNB; First Navy Bank's LTD ratio was considered less than reasonable during their 2008 CRA Performance Evaluation.

Institution	State	Assets as of 12/30/2011*	Average LTD Ratio%**
Armed Forces Bank	KS	1,840	58.6%
First National Bank	OK	432	47.4%
Fort Sill National Bank	OK	370	28.8%
First Arkansas Bank & Trust	AR	681	65.4%
First Navy Bank	FL	64	13.3%
<b>Fort Hood National Bank</b>	<b>TX</b>	<b>222</b>	<b>13.4%</b>

\*Asset size of institutions is in thousands (000).

\*\*The average LTD ratio is based on the period between September 2007 and December 2011.

### Lending in Assessment Area

FHNB serves a military community consisting of active duty and retired military personnel and their dependents; the bank has defined its AA as its deposit base. Based on our sample of 26 loans, 25 of the bank's loan customers maintain deposit accounts. Therefore, 96% of loans in our sample were within FHNB's AA, which is considered outstanding.

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

FHNB's performance with regard to lending to borrowers of different income levels is outstanding. As discussed earlier, the bank's customer base consists principally of military personnel who are not located within a defined geographic area, so it was necessary to define its AA to include the entire deposit base. A random sample of 26 consumer loans originated was selected for the evaluation period, except that Fresh Start Loans were excluded. Of the 26 loans sampled, 25 were in the AA and the bank data below reflects the borrower income breakdown of those 25 AA loans.

Because gross annual incomes are not available for the entire base of deposit customers, a direct comparison of the incomes of deposit customers to loan customers could not be performed. In addition, the number or percentage of military personnel at various income levels is not publically available. Although it does not correspond to its military community, the only demographic data available that may offer a comparison of the dispersion of lending to different income groups is nationwide household income data. Accordingly, the following tables show the distribution of borrower income based on national median household income, followed by a comparison of a sample of FHNB's lending to low-, moderate-, middle-, and upper-income borrowers to that of households in the same income groups nationwide.

**Borrower Income Levels – National Median Household Income**

<i>Estimated Median Household Income</i>	<i>Low 0 - 49.99%</i>	<i>Moderate 50% - 79.99%</i>	<i>Middle 80% - 119.99%</i>	<i>Upper 120% - &amp; Above</i>
2010: \$49,445	0 - \$24,718	\$24,719 - \$39,551	\$39,552 - \$59,329	\$59,330 - & Above

Source: US Census Bureau

**Borrower Income Levels – FHNB Consumer Loans**

Income Category	Fort Hood National Bank's Consumer Loans				% of US Households
	#	%	\$	% \$	%
Low	6	24%	\$57,043	38.8%	23.0%
Moderate	5	20%	\$4,848	3.3%	16.6%
Middle	8	32%	\$47,368	32.2%	19.2%
Upper	6	24%	\$37,800	25.7%	41.2%
<b>Totals</b>	<b>25</b>	<b>100%</b>	<b>\$147,059</b>	<b>100%</b>	<b>100%</b>

Source: US Census Bureau, FHNB Loan Sample

As indicated in the table above, FHNB's lending to low- and moderate-income (LMI) borrowers exceeds the percentage of US households that are LMI, reflecting an outstanding performance overall.

**Geographic Distribution of Loans**

Because FHNB's AA is its entire deposit customer base and it has no defined geographic boundaries, a review of the geographic distribution of the bank's loans was not conducted.

**Responses to Complaints**

FHNB has received no complaints relating to its performance under the CRA.

**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.