



PUBLIC DISCLOSURE

April 06, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 14886

301 East Houston Street
Jasper, TX 75951

Office of the Comptroller of the Currency

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, 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

First National Bank of Jasper (FNB Jasper or the bank) has a Satisfactory record of meeting community credit needs based on the following:

- FNB Jasper has maintained a loan-to-deposit (LTD) ratio on a quarterly basis that is reasonable when compared to similarly sized peer banks.
- A majority of FNB Jasper's lending is inside the assessment area (AA) by number of loans originated or refinanced.
- The overall borrower distribution of loans reflects reasonable penetration among individuals of different income levels and small businesses given the performance context.
- The overall geographic distribution of loans reflects excellent dispersion among families and households of different income levels and small business given the performance context.

SCOPE OF EXAMINATION

Our examination included a review of FNB Jasper's Community Reinvestment Act (CRA) performance. FNB Jasper was evaluated under the Small Bank CRA procedures, which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through lending activities. The lending test for FNB Jasper covers the bank's performance from January 1, 2013 through December 31, 2014, as this is representative of its lending strategy since the last CRA examination.

FNB Jasper's primary lending products by dollar amount are residential real estate loans and business loans, and by number, consumer loans. As a small bank located outside a Metropolitan Statistical Area (MSA), the bank does not report Home Mortgage Disclosure Act (HMDA) data, as it is not required. In addition, the bank is not required to collect or report loan data for business loans.

Due to the low volume of bank lending during the sampling period for residential and business loans, we based analysis on all loans originated or renewed, which included 63 residential loans or \$5.4 million by dollar amount and 68 business loans or \$9.5 million by dollar amount. Due to the high number of consumer loans, we used a statistically valid sample of 30 consumer loans per year, for a total of 60 consumer loans or \$631 thousand by dollar amount.

DESCRIPTION OF INSTITUTION

The FNB Jasper is a \$259 million full service community bank headquartered in Jasper, Texas. The bank, located in Jasper County, was chartered on February 6, 1960 and is wholly owned by East Texas Bancshares, Inc., Livingston, Texas. Affiliates include the First State Bank of Livingston in Livingston, Texas. Jasper is primarily a rural community with a large timber industry.

The bank's main banking center is located at 301 E. Houston St. Jasper, TX, which is in a middle-income census tract. The bank also serves its customers with an additional branch, located at 270 US Highway 190 East, Woodville, Texas, which is also in a middle-income census tract. Both locations have Automated Teller Machines (ATMs) and offer no service charges to customers using any ATM from the bank's affiliate. During the evaluation period, there were no branch closings or openings.

Banking hours are reasonable, with lobby hours Monday through Friday. Saturday drive-in hours are also available at both locations. The bank provides 24-hour Internet banking services and Interactive Voice Response telephone services. The bank also offers an array of standard deposit and loan products and services to help meet the credit needs of its community. The bank's primary lending focus is residential, commercial, and consumer.

There are no legal or financial impediments to the bank's ability to meet the credit and community development needs of its AAs. The bank was rated Satisfactory at its last CRA examination dated March 1, 2010.

Please refer to the bank's Public File for additional information.

DESCRIPTION OF ASSESSMENT AREA(S)

The Jasper AA includes 21 census tracts (CTs) in five contiguous counties. It is comprised of all CTs in Jasper and Tyler Counties and portions of Angelina, Sabine, and San Augustine Counties. For the year 2013, 16 CTs in the AA were designated as middle-income (76 percent) and five were designated as moderate-income tracts (24 percent). In 2014, the AA contained 17 middle-income CTs (81 percent) and only four moderate-income tracts (19 percent). Per U.S. Census data, the updated MSA median family income was \$50,500 for 2013 and \$51,600 for 2014. We concluded this AA does not arbitrarily exclude any low- or moderate-income areas.

The economic climate in Jasper and Tyler Counties is good. According to the Texas Workforce Commission, overall unemployment was 7.5 percent in September 2014 and 9.6 percent in September 2013. Jasper County is located in Deep East Texas, approximately 134 miles from Houston, TX. Jasper is the county's largest town and the county seat. Primary industries providing employment to Jasper County includes educational, health and social services, retail and construction. Tyler County is located west of Jasper County. Woodville is the county's largest town and the county seat.

Primary industries providing employment to Tyler County includes educational, health and social services, manufacturing, and agriculture and forestry.

Banking competition is moderate. Per the Federal Deposit Insurance Corporation Deposit Market Share Report, there were 18 institutions in the Jasper AA. The five largest competitors in the AA include First Bank & Trust East Texas, First National Bank of Jasper, Regions Bank, Commercial Bank of Texas, N.A., and Compass Bank. Of these institutions, the top two hold approximately 36 percent of the total deposit market share for all counties in the AA. First National Bank of Jasper holds the second-highest market share at 11 percent.

Community Contact

During the review period, we spoke with a representative of the City of Woodville, the county seat of Tyler County. The organization is involved with general city administration. The contact indicated that economic conditions were good, with industrial development growth in the past two years. Relating to the mentioned industrial growth, one of the needs the contact indicated was the need for small business lending. After the upset to the oil and gas industry, local workers are migrating back to the timber industry and must finance log trucks and chipping equipment.

In response to the community credit needs, FNB Jasper offers small business loans for equipment and vehicles.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Performance under the Lending Test is Satisfactory.

Loan-to-Deposit Ratio

FNB Jasper's LTD ratio meets the standard for satisfactory performance. The LTD ratio is below average but is reasonable given the bank's performance context. Our analysis included three similarly situated banks in surrounding areas, ranging in total asset size of \$324 to \$333 million. The quarterly average LTD ratio since the last CRA evaluation was 38 percent, ranging from a high of 45 percent in the third quarter of 2010 to a low of 28 percent in the second quarter of 2014. The comparator quarterly average ratio over the same period was 44 percent. These quarterly average ratios ranged from a low of 36 percent to a high of 49 percent. The bank holds the largest proportion of public funds, at 40 percent of total deposits, of all comparator institutions, limiting the bank's ability to lend. After adjusting for public funds, the bank's LTD is 59 percent.

Lending in Assessment Area

A majority of loan originations were inside the bank's AA. Specifically, by number, 80 percent of loans originated or refinanced during the evaluation period were in the Jasper AA. Our analysis included 191 loans originated or refinanced in 2013 and 2014. While only 56 percent of loans by dollar were inside FNB Jasper's AA, this is reasonable due to a portion of large dollar commercial loan participations purchased outside the bank's AA. The following table details FNB Jasper's lending in the AA by product type.

| Table 1 - Lending in Jasper AA | | | | | | | | | | |
|---------------------------------------|-----------------|--------------|---------|-------|-------|------------------|--------------|---------|-------|--------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Residential | 54 | 85.71 | 9 | 14.29 | 63 | 4,240 | 77.94 | 1,200 | 22.06 | 5,440 |
| Consumer | 51 | 85.00 | 9 | 15.00 | 60 | 422 | 66.88 | 209 | 33.12 | 631 |
| Commercial | 48 | 70.59 | 20 | 29.41 | 68 | 4,045 | 42.43 | 5,489 | 57.57 | 9,543 |
| Totals | 153 | 80.10 | 38 | 19.90 | 191 | 8,707 | 55.80 | 6,898 | 44.20 | 15,614 |

Source: Loan data collected by bank

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

Overall, the distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes given the bank's product offerings, local economic conditions, and performance context.

Residential Real Estate Loans

The 2013 distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels in the Jasper AA. Loan data reflects poor penetration as it relates to low-income families but excellent penetration when comparing the number of loans made by the bank to the moderate-income demographic comparator. Twenty percent of the bank's residential real estate loans originated or purchased during the sampling period were originated to moderate-income families. The following table details the bank's 2013 performance as compared to families at varying income levels in the AA.

| Table 2A – Borrower Distribution of 2013 Residential Real Estate Loans in Jasper AA | | | | | | | | |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| 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 |
| Residential RE Loans | 24.33 | 0.00 | 19.86 | 20.00 | 20.33 | 8.00 | 35.48 | 72.00 |

Source: Loan data collected by bank

The 2014 distribution of residential real estate loans reflects reasonable penetration among borrowers of different income levels in the Jasper AA. The bank's lending was slightly below the demographic comparator for both low- and moderate-income families. Thirty-one percent of the bank's residential real estate loans originated or purchased during the sampling period were originated to low- and moderate-income families. The following table details the bank's 2014 performance as compared to families at varying income levels in the AA.

| Table 2B – Borrower Distribution of 2014 Residential Real Estate Loans in Jasper AA | | | | | | | | |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| 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 |
| Residential RE Loans | 24.10 | 17.24 | 19.70 | 13.79 | 20.36 | 3.45 | 35.84 | 65.52 |

Source: Loan data collected by bank

Business Loans

The 2013 distribution of business loans reflects reasonable penetration among businesses of different sizes in the Jasper AA. The bank's lending to small businesses was near to that of the demographic comparator. Small businesses are those with gross annual revenues of \$1 million or less. During the sampling period, 59 percent of the bank's loans to businesses, by number, were originated to small businesses. The following table details the bank's 2013 performance as compared to different sized businesses in the AA.

| Table 2C – Borrower Distribution of 2013 Loans to Businesses in Jasper AA | | | | |
|--|--------------|--------------|---------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/Unknown | Total |
| % of AA Businesses | 72.94 | 2.41 | 24.65 | 100% |
| % of Bank Loans in AA by # | 59.09 | 36.36 | 4.55 | 100% |
| % of Bank Loans in AA by \$ | 35.77 | 62.49 | 1.74 | 100% |

Source: Loan data collected by bank

The 2014 distribution of business loans reflects poor penetration among businesses of different sizes in the Jasper AA. The bank's lending to small businesses was significantly lower than the demographic comparator. During the review period, 27 percent of the bank's loans to businesses, by number, were originated to small businesses. Poor penetration was primarily due to the bank originating multiple loans to the same business that had revenues greater than \$1 million. For example, the bank originated five separate business loans to the same business, which had gross annual revenues greater than \$1 million. The following table details the bank's 2014 performance as compared to different sized businesses in the AA.

| Table 2D – Borrower Distribution of 2014 Loans to Businesses in Jasper AA | | | | |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 70.48 | 2.83 | 26.69 | 100% |
| % of Bank Loans in AA by # | 26.93 | 46.15 | 26.92 | 100% |
| % of Bank Loans in AA by \$ | 23.23 | 62.73 | 14.04 | 100% |

Source: Loan data collected by bank

Consumer Loans

The 2013 distribution of consumer loans to borrowers reflects poor penetration among borrowers of different income levels in the Jasper AA. The bank's performance was significantly below the demographic comparator for both low-income and moderate-income borrowers. Nineteen percent of the bank's consumer loans originated during the sampling period were originated to low- and moderate-income households. The following table details the bank's 2013 performance as compared to households at varying income levels in the AA.

| Table 2E – Borrower Distribution of 2013 Consumer Loans in Jasper AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | 27.16 | 7.41 | 17.17 | 11.11 | 19.90 | 22.22 | 35.77 | 44.44 |

Source: Loan data collected by bank

Footnote: 14.82% of sampled loans did not require income verification

The 2014 distribution of consumer loans to borrowers reflects excellent penetration among borrowers of different income levels in the Jasper AA. The bank's lending to low- and moderate-income individuals significantly exceeded the demographic comparator. Fifty percent of the bank's consumer loans originated during the sampling period were originated to low- and moderate-income households. The following table details the bank's 2014 performance as compared to households at varying income levels in the AA.

| Table 2F – Borrower Distribution of 2014 Consumer Loans in Jasper AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | 26.13 | 29.17 | 16.67 | 20.83 | 19.99 | 20.83 | 37.21 | 20.83 |

Source: Loan data collected by bank

Footnote: 8.34% of sampled loans did not require income verification

Geographic Distribution of Loans

Overall, the geographic distribution of loans reflects excellent dispersion among families and households of different income levels and businesses of different sizes given the bank's product offerings, local economic conditions, and performance context. The Jasper AA did not contain any low-income tracts and consisted primarily of middle-income census tracts. Of these middle-income tracts, 33 percent were distressed or underserved in 2013, while 81 percent were distressed or underserved in 2014. There were no conspicuous gaps identified in the geographic distribution.

Residential Real Estate Loans

The 2013 distribution of residential real estate loans reflects reasonable dispersion throughout census tracts of different income levels in the Jasper AA. The distribution of the bank's residential real estate lending in moderate-income census tracts is near to the demographic comparator. Twelve percent of the bank's residential real estate loans originated or purchased during the sampling period were originated in moderate-income census tracts. The following table details the bank's 2013 performance as compared to the percentage of owner-occupied housing units in each census tract income level.

| Table 3A – Geographic Distribution of 2013 Residential Real Estate Loans in Jasper AA | | | | | | | | |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % 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 |
| Residential RE Loans | 0.00 | 0.00 | 14.18 | 12.00 | 85.82 | 88.00 | 0.00 | 0.00 |

Source: Loan data collected by bank

The 2014 distribution of residential real estate loans reflects reasonable dispersion throughout census tracts of different income levels in the Jasper AA. The distribution of the bank's residential real estate lending in moderate-income census tracts is below the demographic comparator. This is reasonable as the AA contained one less moderate-income census tract compared to 2013, allowing less opportunity to lend in these census tracts. Seven percent of the bank's residential real estate loans originated or purchased during the sampling period were originated in moderate-income census tracts. The following table details the bank's 2014 performance as compared to the percentage of owner-occupied housing units in each census tract income level.

| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
|---------------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| | % 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 |
| Residential RE Loans | 0.00 | 0.00 | 10.55 | 6.90 | 89.45 | 93.10 | 0.00 | 0.00 |

Source: Loan data collected by bank

Business Loans

The bank's 2013 geographic distribution of business loans reflects excellent dispersion throughout census tracts of different income levels in the Jasper AA. The distribution of the bank's business lending in moderate-income census tracts significantly exceeds the demographic comparator. Thirty-six percent of the bank's business loans originated or purchased during the sampling period were originated in moderate-income census tracts. The following table details the bank's 2013 performance as compared to the percentage of businesses in each census tract income level.

| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
|---------------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| | % 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 |
| Business Loans | 0.00 | 0.00 | 20.58 | 36.36 | 79.42 | 63.64 | 0.00 | 0.00 |

Source: Loan data collected by bank

The bank's 2014 geographic distribution of business loans reflects excellent dispersion throughout census tracts of different income levels in the Jasper AA. The distribution of the bank's business lending in moderate-income census tracts significantly exceeds the demographic comparator.

Thirty-five percent of the bank's business loans originated or purchased during the sampling period were originated in moderate-income census tracts. The following table details the bank's 2014 performance as compared to the percentage of businesses in each census tract income level.

| Table 3D – Geographic Distribution of 2014 Loans to Businesses in Jasper AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % 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 |
| Business Loans | 0.00 | 0.00 | 18.11 | 34.62 | 81.89 | 65.38 | 0.00 | 0.00 |

Source: Loan data collected by bank

Consumer Loans

The bank's 2013 geographic distribution of consumer loans reflects excellent dispersion throughout census tracts of different income levels in the Jasper AA. The bank's lending in moderate-income tracts significantly exceeds the demographic comparator. Twenty-two percent of the bank's consumer loans originated during the sampling period were originated in moderate-income census tracts. The following table details the bank's 2013 performance as compared to the percentage of owner-occupied housing units in each census tract income level.

| Table 3E – Geographic Distribution of 2013 Consumer Loans in Jasper AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | 16.28 | 22.22 | 83.72 | 77.78 | 0.00 | 0.00 |

Source: Loan data collected by bank

The bank's 2014 geographic distribution of consumer loans reflects poor dispersion throughout census tracts of different income levels in the Jasper AA. The bank's lending in moderate-income tracts is below the demographic comparator. This is reasonable as the AA contained one less moderate-income census tract compared to 2013, allowing less opportunity to lend in these census tracts. Eight percent of the bank's consumer loans originated during the sampling period were originated in moderate-income census tracts.

The following table details the bank’s 2014 performance as compared to the percentage of owner-occupied housing units in each census tract income level.

| Table 3F – Geographic Distribution of 2014 Consumer Loans in Jasper AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 | 13.00 | 8.33 | 87.00 | 91.67 | 0.00 | 0.00 |

Source: Loan data collected by bank

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

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