



PUBLIC DISCLOSURE

March 10, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Eagle Lake
Charter Number 7534

100 Commerce Street
Eagle Lake, TX 77434

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 COMMUNITY REINVESTMENT ACT RATING:
This institution is rated Satisfactory.**

The First National Bank of Eagle Lake (FNB Eagle Lake) has a Satisfactory record of meeting community credit needs. This is based on the following:

- The loan-to-deposit ratio (LTD) is more than reasonable based on the average LTD of comparable competing banks in the assessment area (AA).
- A majority of the bank's loans were originated in its AA.
- Loan originations reflect a reasonable distribution among businesses of different sizes within its AA.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA.
- The bank did not receive any complaints regarding compliance with the Community Reinvestment Act (CRA) during the evaluation period.

SCOPE OF EXAMINATION

We conducted an evaluation of FNB Eagle Lake to ensure compliance with CRA within the bank's AA. FNB Eagle Lake was evaluated under the Small Bank examination procedures, which includes the lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The period evaluated for this purpose was from January 1, 2013 through December 31, 2014.

The bank's primary loan products are business and agriculture loans. Business and agriculture loans are the largest products by both dollar volume and by number. Business loans represent 59.71 percent of the loan portfolio with a total of 140 loans and agriculture loans represent 11.25 percent of the loan portfolio with a total of 70 loans. Consumer loans were not included as a primary loan product during this examination due to its representation of only 1.18 percent of the loan portfolio and with only 14 loans originated in this category.

FNB Eagle Lake is not required to report data under the Home Mortgage Disclosure Act (HMDA) or the CRA regulation. The bank is also not a HMDA reporter because it does not have a branch or deposit taking automated teller machines (ATMs) located in a Metropolitan Statistical Area (MSA). Therefore, our sample included a total of 89 loans that were randomly selected to determine the borrower's gross revenue and income. From the 89 loans that we sampled, 15 business and agriculture loans originated in 2013 and 29 business and 30 agriculture loans originated in 2014.

DESCRIPTION OF INSTITUTION

FNB Eagle Lake is a \$107 million full service community bank headquartered in Eagle Lake, Texas and located in Colorado County. The bank was chartered on December 30, 1904. It is wholly owned by Eagle Lake Bancshares, Inc., which is owned by approximately 70 shareholders who are mostly residents of the local community. FNB Eagle Lake maintains an ongoing effort to service the banking needs of Eagle Lake as well as its primary trade area throughout Colorado and Wharton Counties. Eagle Lake is located in a primarily rural and agricultural community.

The bank's main banking center is located at 100 Commerce St. in Eagle Lake, TX, which is in a middle-income census tract. The bank also serves its customers with two other full service branch locations located at 138 S. Dill St. in East Bernard, TX and at 1001 Milam St. in Columbus, TX, which are both in an upper-income census tract. For customer convenience, the bank also has two non-deposit taking ATMs, one in Eagle Lake, TX and one in East Bernard, TX. All locations have reasonable hours of operation during the week and the East Bernard and Columbus branches are also open for additional hours on Saturday to help meet the banking needs in the community. Additionally, the bank provides its customers with 24-hour account access through online banking.

Commercial lending is the bank's primary lending focus with the majority of the loan portfolio consisting of business loans. Consumer, commercial real estate, and agriculture/farm loans are also available to customers. In addition to loan products, the bank also offers a variety of standard deposit products and services to appeal to different types of customers and their needs. As an added service to its customer base and community, the bank also provides key information to help increase financial literacy on their website.

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 January 11, 2010.

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

DESCRIPTION OF ASSESSMENT AREA

FNB Eagle Lake has one AA located in Texas, which consists of all of Wharton and Colorado Counties. This AA is not in an MSA.

Wharton/Colorado Assessment Area

The Wharton and Colorado Counties AA consist of a total of 16 census tracts (CTs), all five CTs in Colorado County and all 11 CTs in Wharton County. Colorado County has four middle-income CTs and one upper-income CT. Wharton County has one moderate-income CT, eight middle-income CTs, and two upper-income CTs.

None of the census tracts in the Colorado and Wharton Counties AA are designated as distressed or underserved areas. All CTs in this AA are contiguous and therefore meet the requirements of the regulation since it does not intentionally exclude any low- or moderate-income areas.

Colorado and Wharton Counties are predominantly a rural and agricultural region located southwest of the rapidly expanding Houston metropolis. Although this area is situated far enough to avoid the pressures of rapid growth and development typically experienced by neighboring counties to Houston, Colorado and Wharton Counties, it is still a viable residential location for those wanting to commute into the larger city for employment opportunities. Expansion through Wharton County along the US Highway 59 corridor is anticipated to stimulate future growth in that area.

Rice is the major crop, but farmers also grow other commodities including milo, soybeans, cotton, and turf grasses. Other than farming, major employers in the area include Wharton ISD, South Memorial Hermann Hospital, Nan Ya Plastics, Maxim Production Co., and Wal-Mart. According to the Texas Workforce Commission, unemployment in Colorado County was 4.4 percent in 2014. In Wharton County, the unemployment rate for the same year was only slightly higher at 4.7 percent.

According to 2010 U.S. Census Bureau information, Wharton County's total population includes 41,280 persons and a total of 20,874 persons in Colorado County. The AA consists of 16,585 owner occupied residences and 6,428 occupied rental residences. The weighted average median value of family income was \$52,089, and the weighted average of monthly gross rents is \$612.

Banking competition is moderate in the local market as of June 30, 2014. Prosperity Bank maintains the majority market share in Wharton County with approximately 44 percent. The First State Bank has the majority of the market share in Colorado County with 21 percent. FNB Eagle Lake ranked 8th out of the ten banks located within Wharton County when comparing deposit market share, and it ranked 5th out of the nine banks located within Colorado County, per the FDIC. Other competitors in the AA are NewFirst National Bank, Commercial State Bank, Hill Bank & Trust Co., and Industry State Bank to name a few.

During the examination, we contacted a local community organization with knowledge of the area. This contact indicated credit needs in the AA were related to farming and ranching, businesses such as wood preserving, an oil and gas refinery, and other services expanding in the local community. The contact indicated that all of the local banks participate in events to support efforts in attracting new businesses to the area, including FNB Eagle Lake.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's LTD ratio is more than reasonable based on the bank's performance context. The bank's quarter-end LTD ratio since December 31, 2009 has averaged 67.81 percent compared to the average of the bank's peer group at 26.16 percent. We compared this ratio to a peer group of four banks located within or near the AA, with similar markets and asset sizes as the bank. The average quarterly ratios of this peer group ranged from a low of 12.63 percent to a high of 60.31 percent.

Lending in Assessment Area

Based on the sample reviewed, we found that a majority of the loans were originated inside the bank's AA. Based on reliable census tract information, we used bank-provided information from a sample of business and agriculture loans originated from January 1, 2013 to December 31, 2014. As shown in Table 1 below, 69.66 percent of the number of loans and 66.04 percent of the dollar amount of loans were originated in the AA.

Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	32	72.73	12	27.27	44	4,836	65.03	2,600	34.97	7,437
Agriculture	30	66.67	15	33.33	45	6,174	66.85	3,062	33.15	9,236
Totals	62	69.66	27	30.34	89	11,011	66.04	5,662	33.96	16,673

Small Business Loans

The distribution of small business loans reflects reasonable penetration to businesses of different sizes. Based on the sample and analysis of the borrowers' gross annual revenues, we compared the bank's performance to the performance of the AA as a whole according to Dun & Bradstreet information.

As indicated in the table below, the bank's performance in lending to small businesses with revenues equal to or less than \$1 million in Colorado and Wharton Counties is near to the characteristics of the AA for the number of loans. For dollar amount of loans, the bank's performance is lower than the characteristics of the AA. The number percentage was assigned a greater weight in our evaluation as it more clearly indicates the efforts made by the bank to extend loans to meet the needs of the community. The bank's performance is shown in the following table:

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.26	3.98	24.76	100%
% of Bank Loans in AA by #	68.75	31.25	0.00	100%
% of Bank Loans in AA by \$	53.17	46.83	0.00	100%

Agricultural Loans

The distribution of small farm loans reflects excellent penetration among farms of different sizes, as it meets the characteristics of the AA especially for agricultural businesses with gross annual revenues of \$1 million or less. As in the analysis of the small business loans, we reviewed the gross annual revenues of the sampled agricultural loans to determine the bank's performance by comparing its performance to the characteristics of the AA according to Dun & Bradstreet information.

In the Colorado and Wharton Counties AA, the bank's performance meets the characteristics of the AA for the number of loans and is near to the characteristics of the AA for the dollar amount of loans. The bank's performance is shown in the following table:

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	96.73	2.34	0.93	100%
% of Bank Loans in AA by #	96.67	3.33	0.00	100%
% of Bank Loans in AA by \$	89.23	10.77	0.00	100%

Geographic Distribution of Loans

The overall geographic distribution of the bank's loans is reasonable considering the demographics of the AA. The Colorado and Wharton Counties AA currently does not have a low-income CT and only one moderate-income CT. Our review included an analysis of the geographic location of all business and agricultural loans originated from January 1, 2013 through December 31, 2014. Our review also included identifying loans originated in CTs designated as distressed by the Federal Financial Institutions Examining Council. Colorado and Wharton Counties also do not have any CTs that are designated as distressed. The geographic distribution of these loans showed reasonable dispersion, and our review did not reveal any apparent gaps in lending in the AA.

Our evaluation takes into consideration the evident limited opportunities the bank has to lend specifically within low- to moderate-income CTs and/or within distressed or underserved CTs. Management also informed us that the one moderate-income CT in

the AA is located near El Campo, TX in an area that is mostly undeveloped. In addition, the bank competition is significant in that segment of the AA. Considering all of these factors, we concluded that the geographic distribution of business loans was reasonable. The bank’s performance is shown in the following table:

Table 3A - Geographic Distribution of Business Loans in Colorado and Wharton Counties								
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
Business Loans	0.00	0.00	4.24	0.00	64.15	75.00	31.61	25.00

Similarly, to the small business lending performance, the bank was also unable to originate any agricultural loans in the one moderate-income CT in this AA. As a result and considering the same limitations as previously stated, we concluded the geographic distribution of loans to farms was reasonable. The bank’s performance is shown in the following table:

Table 3A - Geographic Distribution of Agricultural Loans in Colorado and Wharton Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0.00	0.00	3.58	0.00	56.07	53.33	40.34	46.67

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.