



PUBLIC DISCLOSURE

May 21, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Hughes Springs
Charter Number 6922

505 East First
Hughes Springs, TX 75656

Office of the Comptroller of the Currency

1800 W Loop 281
Suite 306
Longview, TX 75604

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 Lending Test is rated: Satisfactory.

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A substantial majority of loan originations and purchases are inside the bank's assessment area (AA).
- The distribution of loans among borrowers of different income levels represents reasonable penetration. The distribution of loans to businesses of different sizes is excellent.
- Geographic distribution represents a reasonable dispersion throughout the bank's AA.

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: 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

The First National Bank of Hughes Springs (FNB) is a \$284 million bank with its main office located at 505 East First Street, Hughes Springs, Texas. The bank is wholly owned by Chalybeate Springs Corporation, a one-bank holding company. In addition to the main office, FNB operates 15 full-service branches and one drive-thru branch. The bank operates 12 automatic teller machines (ATMs) located at the various branches. A majority of the bank's offices are located in the non-metropolitan counties of Cass, Morris, Harrison, Shelby, and Cherokee. The bank has one branch located in Gregg County and one located in Upshur County, which are located in the Longview Metropolitan Statistical Area (MSA). They also operate two branches in Smith County which is located in the Tyler MSA. Two of the branches are located in Bowie County which is in the Texarkana MSA. Finally, in 2017 the bank acquired two branches in Falls County which is part of the Waco MSA.

The bank is a full service financial institution and offers a wide range of deposit and loan products and services to its customers. Consumer and commercial lending are FNB's primary business focus, with residential mortgages and farm loans comprising a smaller portion of the loan portfolio. As of March 31, 2018, net loans represented 64 percent of total assets.

There are no legal, financial, or other factors impeding the bank's ability to meet the community credit needs in its AA. The bank's CRA performance was previously evaluated as of June 18, 2013, with an overall level of performance rated as "Satisfactory."

Scope of the Evaluation

Evaluation Period/Products Evaluated

The scope of the examination was to assess the bank's ability to meet the credit needs of the communities in which it operates. FNB was evaluated under the Small Bank CRA performance criteria. Conclusions regarding the bank's lending performance were based on a sample of the bank's primary lending products originated from January 1, 2016 through December 31, 2017. Primary products in the Non-MSA and Longview MSA AAs include consumer and commercial loans. The primary product in the Texarkana MSA and Tyler MSA AAs is consumer loans. Income distribution and geographic dispersions were analyzed separately for 2016 and 2017 due to different demographic data being in place for these two time periods.

The Waco MSA AA was not included in the review as they were acquired in 2017 and the volume of lending in this AA is not sufficient to perform a meaningful analysis.

Data Integrity

Prior to this CRA examination, a data integrity examination was performed to verify the accuracy of the HMDA data. It was concluded that there was a significant volume of errors in the 2014 and 2015 HMDA data. The bank implemented new procedures, corrected all data and had an independent review of 2014, 2015, and 2016 data. OCC personnel validated the 2016 data submission and 2017 data prior to submission. It was concluded that the HMDA data was reliable.

Selection of Areas for Full-Scope Review

The full-scope area for this evaluation will be the Non-MSA AA. This AA accounts for 75 percent of the bank's deposits and 79 percent of its loans. Additionally, 53 percent of the bank's locations are located within the AA.

The bank has three-limited scope AAs. These are the Longview MSA AA, which accounts for 7 percent of the bank's deposits and 12 percent of its branches, the Tyler MSA AA, which accounts for 4 percent of the deposits and 12 percent of the branches and the Texarkana MSA AA, which accounts for 4 percent of the deposits and 12 percent of the loans. Additionally, deposit market share in all three limited-scope AAs was nominal.

Ratings

The bank's overall rating is based primarily on the performance in the Non-MSA AA due to the significant volume of loans and deposits in the AA as noted above.

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 [or any affiliate whose loans have been considered as part of the institution's lending performance] 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 TEST

The bank's overall lending performance is satisfactory. The bank's LTD ratio is reasonable and a substantial majority of the bank's loans are within the AA. Additionally, the distribution of loans by income level represents a reasonable penetration among borrowers of different income levels and businesses of different sizes.

Loan-to-Deposit Ratio

The bank's LTD ratio is reasonable given the institution's size, financial condition, and AA credit needs. The bank's quarterly average LTD ratio was 71.96 percent since the prior CRA examination in June 2013. The average quarterly LTD ratio of other banks for the same timeframe was 78.75 percent and ranged from 57.57 percent to 107.17 percent.

Lending in Assessment Area

A substantial majority of the bank's lending activity is within the AA. The table below illustrates a breakdown

Table 1 - Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	132	82.50	28	17.50	160	1547	84.11	292	15.89	1,839
Commercial	67	83.75	13	16.25	80	5931	87.53	845	12.47	6,776
Totals	199	82.92	41	17.08	240	7478	86.80	1137	13.20	8,615

Source: Loan sample.

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

The distribution of loans to borrowers of different incomes and businesses of different sizes represents reasonable penetration throughout the AA.

Non-MSA AA

The distribution of consumer loans among individuals of different income levels is reasonable. While the percentage of loans to low-income borrowers was slightly less than the AA's demographics, the percentage of loans to moderate-income borrowers exceeded the AA's demographics.

Table 2B - Borrower Distribution of Consumer Loans in Non-MSA AA 2016								
	Low		Moderate		Middle		Upper	
Borrower Income Level	% 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	26.03	21.67	15.40	26.67	17.10	16.67	41.48	35.00

Source: loan sample; 2010 U.S. Census data.

Table 2B - Borrower Distribution of Consumer Loans in Non-MSA AA 2017								
	Low		Moderate		Middle		Upper	
Borrower Income Level	% 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	25.31	25.00	16.20	25.00	17.04	13.33	41.46	36.67

Source: loan sample; 2015 ACS U.S. Census data.

The distribution of loans to businesses of different sizes is reasonable. The percentage of loans to businesses with revenues of \$1 million or less exceeds the percentage of AA businesses in 2016 and is near to the percentage of AA businesses in 2017.

Table 2A - Borrower Distribution of Loans to Businesses in Non-MSA AA 2016				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	82.96	4.56	12.48	100%
% of Bank Loans in AA by #	95.00	5.00	0.00	100%
% of Bank Loans in AA by \$	87.12	12.88	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Table 2A - Borrower Distribution of Loans to Businesses in Non-MSA AA 2017				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	82.72	4.67	12.61	100%
% of Bank Loans in AA by #	75.00	25.00	0.00	100%
% of Bank Loans in AA by \$	26.18	73.82	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Limited Scope AAs

Based on limited scope reviews, FNB's performance in the Longview MSA AA and the Texarkana MSA AA is not inconsistent with the performance in the Non-MSA AA. The bank's performance in the Tyler MSA AA is stronger than the performance in the Non-MSA AA.

Geographic Distribution of Loans

FNB's distribution of loans by geography represents a reasonable dispersion of loans throughout the bank's AAs given the demographics of the institution's AAs.

Non-MSA AA

The geographic distribution of loans within the AA represents reasonable dispersion. There are no low-income census tracts in the AA and seven moderate-income census tracts. The location of the seven moderate-income census tracts are not close in proximity to the branch locations and in most cases located in or near other cities. Also, eight of the bank's nine locations located in the AA are in middle-income distressed or underserved census tracts.

The geographic distribution of consumer loans within the AA represents reasonable dispersion. The percentage of loans in moderate-income census tracts is just slightly less than the AA demographics.

Table 3B - Geographic Distribution of Consumer Loans in Non-MSA AA 2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	15.56	13.33	62.07	81.67	22.37	5.00

Source: loan sample; 2010 U.S. Census data.

Table 3B - Geographic Distribution of Consumer Loans in Non-MSA AA 2017								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	16.32	15.00	68.69	83.33	14.99	1.67

Source: loan sample; 2015 ACS U.S. Census data.

The geographic distribution of business loans within the AA represents reasonable dispersion. While the percentage of loans in moderate-income census tracts was significantly less than the percentage of AA businesses in 2016, the percentage of loans was near the percentage of AA businesses in 2017. With the mitigating factors discussed above this results in reasonable dispersion.

Table 3A - Geographic Distribution of Loans to Businesses in Non-MSA AA 2016								
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
	0.00	0.00	24.46	1.67	52.62	91.67	22.92	6.67

Source: Loan sample; Dun and Bradstreet data.

Table 3A - Geographic Distribution of Loans to Businesses in Non-MSA AA 2017								
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
	0.00	0.00	15.41	10.00	69.60	85.00	14.99	5.00

Source: Loan sample; Dun and Bradstreet data.

Limited Scope AAs

Based on limited scope reviews, FNB’s performance in the Longview MSA AA was not inconsistent with the performance in the Non-MSA AA. Performance in the Texarkana MSA AA was weaker than the Non-MSA AA performance, however the bank includes Bowie County in its entirety, which includes the city of Texarkana. The bank’s branches are a significant distance from Texarkana and competition within Texarkana is strong. Additionally, the bank’s deposit market share in Texarkana is less than 1 percent. Performance in the Tyler MSA AA was stronger than the Non-MSA AA performance.

Responses to Complaints

FNB has received no CRA related complaints during the evaluation period.

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: 01/01/16 to 12/31/17	
Financial Institution	Products Reviewed	
First National Bank of Hughes Springs (FNB) Hughes Springs, TX	Consumer Loans Business Loans	
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Non-MSA AA Longview MSA AA Texarkana MSA AA Tyler MSA AA	Full-Scope Limited-Scope Limited-Scope Limited-Scope	Consumer and Business loans Consumer and Business loans Consumer Only Consumer Only

Appendix B: Community Profiles for Full-Scope Areas

Non-MSA AA

Demographic Information for Full-Scope Area: Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	36	0.00	19.44	66.67	13.89	0.00
Population by Geography	156,229	0.00	17.49	67.17	15.34	0.00
Owner-Occupied Housing by Geography	43,551	0.00	15.26	69.36	15.38	0.00
Businesses by Geography	8,697	0.00	15.41	69.60	14.99	0.00
Farms by Geography	434	0.00	17.97	68.89	13.13	0.00
Family Distribution by Income Level	40,831	20.64	18.98	19.09	41.29	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	16,176	0.00	21.44	68.14	10.42	0.00
Median Family Income HUD Adjusted Median Family Income for 2017 Households Below the Poverty Level	= \$52,973 = \$54,200 = 18.06%	Median Housing Value Unemployment Rate				\$94,045 4.67 %

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2015 ACS U.S. Census, and 2017 HUD updated MFI.

The Non-MSA AA consists of Cass, Morris, Marion, Harrison, and Shelby Counties in their entirety and two CTs in Cherokee County. Cass County includes the communities of Linden, Hughes Springs, Atlanta, Queen City, Douglassville, Bloomburg, and other small rural communities. Morris County includes the communities of Daingerfield, Naples, Omaha, Lone Star, and other small rural communities. Marion County includes the community of Jefferson and other small rural communities. Harrison County includes the communities of Marshall, Hallsville, Waskom, Harleton, and other small rural communities. Shelby County includes the communities of Center, Timpson, Tenaha, and other small rural communities. There are no low-income CTs and seven moderate-income CTs located in the AA. The bank's main office, eight branches, and seven ATMs are located in the AA.

The Non-MSA AA has a total population of 156,229 according to the 2015 ACS U.S. Census. The distribution of families by income level regardless of CT location consists of the following: 21 percent are low-income families, 19 percent are moderate-income families, 19 percent are middle-income families, and 41 percent are upper-income families. The average median housing value in the AA is \$94,045 and 18 percent of residents are living below the poverty line. The unemployment rate in the AA is 4.67%. Major employers in the AA include Lone Star Steel, Tyson Foods, International Paper, and local school districts.