



## **PUBLIC DISCLOSURE**

April 24, 2019

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

First National Bank  
Charter Number 23182

118 North Garfield  
Rotan, TX 79546

Office of the Comptroller of the Currency

5225 South Loop 289, Suite 108  
Lubbock, TX 79424-1319

**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 First National Bank, Rotan (FNB) has a satisfactory record of meeting community credit needs. The rating is based on the following findings:

- FNB's quarterly average net loan-to-deposit (LTD) ratio of 52 percent is more than reasonable given the bank's size, financial condition, local competition, and assessment area (AA) credit needs.
- FNB originated a majority of its loans by number (83 percent) and dollar amount (92 percent) to borrowers located within the AA.
- FNB's loan portfolio reflects a reasonable distribution among businesses of different sizes and consumer loans among individuals of different income levels, including low- and moderate-income borrowers.

## 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 1 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 is a community bank located in Rotan, Texas approximately 225 miles west of Dallas, 65 miles northwest of Abilene, and 125 miles southeast of Lubbock. FNB is an intrastate bank with one banking office that includes a drive-up facility. The bank is a wholly owned subsidiary of Rotan Bancshares, Inc., a one-bank holding company. There was no merger or acquisition activity during the evaluation period.

FNB provides traditional commercial and consumer banking products and related financial products. Bank lobby and drive-through services are provided Monday through Friday. The bank provides customers access to their accounts through its website [www.fnbrotan.com](http://www.fnbrotan.com). Internet services include account balance inquiries, account transfer activities, and remote deposit transfer.

As of December 31, 2018, FNB had total assets of \$79.5 million, with net loans and leases comprising 35 percent of this total. The bank's loan products include agricultural, commercial, consumer, and real estate. The following table depicts FNB's composition of loan originations from 2016-2018.

Loan Originations in 2016, 2017 and 2018 by Original Amount				
Loan Category	\$ of Loans (000s)	% of \$	# of Loans	% of #
Agricultural and Farmland	73,667	81	953	26
Commercial and Commercial Real Estate	9,040	10	322	9
Consumer	8,028	9	2,360	65
Residential Real Estate (1-4 Family)	0	0	0	0
TOTAL	90,735	100	3,635	100

Source: Loan trial balance.

Management and the Board's primary strategy is to serve the agricultural, commercial, consumer, and real estate customers in Fisher County. Based on FNB's financial condition, local economy, product offerings, and competition, the bank has the ability to meet the various credit needs in its community. FNB was rated "Satisfactory" at the previous CRA examination on November 17, 2014. FNB has no legal or financial circumstances that impede the bank's ability to help meet the credit needs in its AA.



## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

The CRA evaluation period is January 1, 2016 through December 31, 2018. We evaluated FNB using Small Bank criteria, which collectively form the Lending Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AA through lending activities using the following performance criteria: loan-to-deposit ratio, lending in the AA, borrower distribution, geographic distribution, and responses to CRA-related complaints.

FNB's primary loan products are agricultural loans by dollar and consumer loans by number. Due to census changes, loans originated in 2016 are evaluated against 2010 US Census Data, and loans originated in 2017-2018 are evaluated against 2015 ACS Census Data. We sampled 52 agricultural loans, 26 originated in 2016 and 26 in 2017-2018. We also sampled 54 consumer loans, 24 originated in 2016 and 30 in 2017-2018.

### **Data Integrity**

We obtained accurate financial and geographic information directly from the bank's loan files.

### **Selection of Areas for Full-Scope Review**

FNB has one AA, Fisher County, which will receive a full-scope review.

### **Ratings**

The bank's overall rating is based on the Fisher County AA.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. §25.28(c) in determining a national bank's 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 required 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

FNB's performance under the Lending Test is Satisfactory.

#### Loan-to-Deposit Ratio

FNB Rotan's LTD ratio is more than reasonable given the bank's size, financial condition, local competition, and AA credit needs. This determination is based on the bank's average quarterly net LTD ratio for 18 quarters from September 2014 through December 2018. During the evaluation period, FNB's average quarterly net LTD ratio was 52 percent and ranged from a low of 39 percent to a high of 61 percent. The quarterly average net LTD ratio for similarly situated banks with total assets of less than \$100 million averaged 40 percent.

Institution	Total Assets (\$000s) As of 12/31/2018	Quarterly Average Net LTD Ratio
<b>The First National Bank, Rotan</b>	<b>79,543</b>	<b>51.91</b>
The First National Bank of Aspermont	67,891	18.21
The National Bank of Anson	62,995	56.75
Haskell National Bank	69,714	45.99

Source: Institution Reports of Condition from September 2014 to December 2018.

#### Lending in Assessment Area

A majority of FNB's loans, 83 percent by number and 92 percent by dollar, were extended to borrowers within the bank's AA.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$000s
	#	%	#	%		\$000s	%	\$000s	%	
Agricultural	44	85	8	15	52	3,035	93	214	7	3,250
Consumer	44	81	10	19	54	161	73	60	27	221
<b>Totals</b>	<b>88</b>	<b>83</b>	<b>18</b>	<b>17</b>	<b>106</b>	<b>3,196</b>	<b>92</b>	<b>274</b>	<b>8</b>	<b>3,470</b>

Source: Bank-Reported Origination Spreadsheets

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

The overall borrower distribution for the AA is reasonable. Based on a sample of 44 agricultural and 44 consumer loans originated within the AA from January 1, 2016 to December 31, 2018, the distribution reflects a reasonable penetration among farms of different sizes and borrowers of different income levels.

## Agricultural Loans

FNB's agricultural lending activity reflects reasonable distribution among farms of different sizes. The percent of FNB agricultural loans originated in 2017-2018 and 2016 to farms with revenues of less than or equal to \$1 million is 95 percent and 100 percent, respectively. This is near the demographic of 96 percent and 98 percent, respectively. The following tables show the results of our samples of agricultural loans.

<b>Borrower Distribution of Loans to Farms in FNB Rotan AA: 2017-2018</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	96	3	1	100%
% of Bank Loans in AA by #	95	5	0	100%
% of Bank Loans in AA by \$	71	29	0	100%

Source: Loan sample; Dun and Bradstreet data.

<b>Borrower Distribution of Loans to Farms in FNB Rotan AA: 2016</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	98	1	1	100%
% of Bank Loans in AA by #	100	0	0	100%
% of Bank Loans in AA by \$	100	0	0	100%

Source: Loan sample; Dun and Bradstreet data.

## Consumer Loans

FNB has reasonable distribution of consumer loans to low- and moderate-income borrowers in AA. Due to a lack of available income information, we used loan size as a proxy to analyze lending to low- and moderate-income borrowers. Consumer loan volume is high in all three years. 18 percent of the number of consumer loans originated from 2016 to 2018 were less than or equal to \$500 and a majority (68 percent) were less than or equal to \$2,500. FNB does not have a minimum loan balance and makes loans as small as \$95. This analysis supports a reasonable distribution of loans to low- and moderate-income borrowers.

<b>Borrower Distribution of Loans to Consumers by Loan Size in Fisher County AA (2016 - 2018)</b>				
Loan Size	# of Loans	% of #	\$ of Loans (000s)	% of \$
\$0 - \$500	423	18%	\$124	2%
\$501 - \$1,000	581	25%	\$442	6%
\$1,001 - \$2,500	591	25%	\$1,030	13%
\$2,501 - \$5,000	374	16%	\$1,383	17%
\$5,001 - \$10,000	222	9%	\$1,577	20%
>\$10,000	169	7%	\$3,472	43%
<b>Total</b>	<b>2,360</b>	<b>100%</b>	<b>\$8,028</b>	<b>100%</b>

Source: Bank trial balance.

### **Geographic Distribution of Loans**

Because there are no census tracts designated as low- or moderate-income, this analysis is not meaningful and was not performed.

### **Responses to Complaints**

Neither the OCC nor FNB has received any CRA-related complaints during this evaluation period. This has a neutral effect on the bank's CRA performance.

# Appendix A: Scope of Examination

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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”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD loans): 1/1/16 to 12/31/18 Investment and Service Tests and CD Loans: NA	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
First National Bank (FNB) Rotan, Texas	Farm Loans, Consumer Loans	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Fisher County, Texas	Full-Scope	

## Appendix B: Community Profiles for Full-Scope Areas

### Fisher County, Texas Assessment Area

Demographic Information for Full-Scope Area: Fisher County, Texas (2017-2018)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	2	0	0	50	50	0
Population by Geography	3,858	0	0	56	45	0
Owner-Occupied Housing by Geography	1,183	0	0	50	50	0
Businesses by Geography	229	0	0	60	40	0
Farms by Geography	57	0	0	60	40	0
Family Distribution by Income Level	1,030	18	18	21	44	0
Distribution of Low- and Moderate-Income Families throughout AA CTs	360	0	0	65	35	0
Median Family Income (MFI)	= \$52,076	Median Housing Value			= \$62,538	
HUD Adjusted MFI 2018	= \$56,500	Unemployment Rate			= 3.0%	
Households Below the Poverty level	= 13.4%					

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2015 U.S. Census (ACS)

Demographic Information for Full-Scope Area: Fisher County, Texas (2016)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	2	0	0	50	50	0
Population by Geography	3,974	0	0	55	45	0
Owner-Occupied Housing by Geography	1,238	0	0	56	44	0
Businesses by Geography	229	0	0	60	40	0
Farms by Geography	83	0	0	57	43	0
Family Distribution by Income Level	1,183	24	13	18	45	0
Distribution of Low- and Moderate-Income Families throughout AA CTs	436	0	0	59	41	0
Median Family Income (MFI)	= \$47,817	Median Housing Value			= \$51,108	
HUD Adjusted MFI 2018	= \$52,400	Unemployment Rate			= 4.0%	
Households Below the Poverty level	= 12.8%					

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 U.S. Census (ACS)

FNB has designated Fisher County as its AA. Roby is the county seat with other principal towns including Rotan and McCaulley. The AA meets regulatory requirements with no low- or moderate-income areas arbitrarily excluded. Federal agencies have designated census tract 9504 as an underserved middle-income nonmetropolitan tract.

Competition within the local market is limited. Primary competition in the AA is from one financial institution, a branch of First Financial Bank. The June 30, 2018, FDIC Deposit Market Share Report for Fisher County shows FNB to have the largest deposit market share with 77 percent.

The local economy is stable and is based on agriculture. Cotton farming is the number one agricultural industry in Fisher County, followed by livestock production. Other major employment opportunities include education, health, and social services. AA unemployment rates are improving, declining from 4.0 percent in December 2016 to 3.0 percent in December 2018. This remains below the state of Texas and the nation at 3.6 percent and 3.7 percent, respectively

We interviewed an individual representing a local economic development organization for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining their performance. FNB helps address the credit needs of the AA and continues to be willing to provide credit for the community when opportunities are available. The bank has good public reputation for meeting the credit needs of the community and is actively involved within the community.