



## **PUBLIC DISCLOSURE**

February 3, 2014

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

The First National Bank of Shiner  
Charter Number 5628

103 W. 7th  
Shiner, TX 77984

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"**

First National Bank of Shiner's (FNB) lending performance reflects a satisfactory response to community credit needs in its assessment area (AA). Factors that support the overall rating include:

- The average loan-to-deposit ratio of 31 percent over the prior 23 quarters is reasonable given the bank's size, financial condition, market focus, competition, and lending opportunities in the AA.
- A substantial majority of our sample of loans, 90 percent of the number and 85 percent of the dollar volume, originated within the AA of the bank.
- Lending activities to small businesses/small farms, with revenues less than one million, reflects excellent penetration.
- There were no Community Reinvestment Act related complaints during the evaluation period.

**SCOPE OF EVALUATION**

FNB was evaluated under the Small Bank Community Reinvestment Act Procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

Our examination scope covered the time period from March 10, 2008, the date of the prior Performance Evaluation, to February 3, 2014, the as of date for the current examination. We identified agricultural and commercial loans to be the bank's primary loan products and reviewed loans originated from January 1, 2012, through September 30, 2013. Agricultural loans represent 35% of the bank's loan portfolio and commercial loans represent 38%. To evaluate FNB's lending performance, we selected a random sample of the bank's primary loan products. Our sample included 25 agricultural loans and 25 business loans.

**DESCRIPTION OF INSTITUTION**

FNB is an intrastate bank headquartered in Shiner, Texas. FNB was founded in 1891 and became federally chartered in 1900. FNB operated as an independent bank until October 2010 when it was acquired by Industry Bancshares, Inc. (IBI). IBI is a five-bank holding company located in Industry TX. As of September 30, 2013, FNB had total assets of \$344 million and tier one capital of \$27 million. During the evaluation period, FNB opened two additional branches located in Cuero, Texas and Flatonia, Texas.

All of the branches consist of a walk-in teller lobby, a drive up motor bank, and a depositing ATM. In addition to the bank sites, FNB also has an ATM located in Waelder, Texas. Additional information can be found in the bank's Public File. As of September 30, 2013, FNB reported net loans of \$50 million and had a net loans and leases to total assets ratio of 15 percent. The loan composition is as follows:

<b>Loan Portfolio Summary by Loan Product September 30, 2013</b>	
<b>Loan Category</b>	<b>% of Outstanding Dollars</b>
Agriculture/Farm	34.40%
Commercial	37.20%
Residential	16.69%
Consumer	5.81%
Obligations of States & Political Subdivisions	2.09%
Other	3.81%
<b>Total</b>	<b>100.00%</b>

*Source: September 30, 2013 Consolidated Report of Condition*

The bank was rated "Satisfactory" at the last Community Reinvestment Act (CRA) examination dated March 10, 2008. No legal impediments or other factors hinder the ability of FNB to provide credit needs in its AA.

## **DESCRIPTION OF ASSESSMENT AREAS**

FNB designated all of Lavaca, Gonzales, Dewitt, and Fayette Counties as its AA. The AA, which is not included in a metropolitan statistical area, includes the cities of Yoakum, Westhoff-Arneckville, Cuero, Yorktown, Round Top, La Grange, La Grange West, Flatonia, Schulenburg, Fayetteville, Waelder, Gonzales, Nixon, Smiley, Hallettsville, Moulton, and Shiner. The AA includes twenty-four census tracts. Two tracts are designated as moderate-income, fifteen are designated as middle-income, and seven are designated upper-income. Of the fifteen middle-income tracts, three were identified as being distressed due to poverty. The AA does not include any low-income census tracts. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Shiner is located 84 miles east of San Antonio and 150 miles west of Houston. According to the U.S. Census Bureau, as of 2010, the city of Shiner had an estimated population of 2,069. The designated AA had a population of 83,721. Economic conditions are currently stable. The economy of the AA is largely dependent upon farming, ranching, and small businesses. FNB's competition consists of eighteen other local financial institutions. The most important agricultural products are dairy and beef cattle, cotton, and corn. Shiner also has industries that manufacture wire, racks, dye and tool plating. Per the 2010 U.S. Census data, the weighted average median family income is \$51,264. The HUD updated median family income as of 2013 is \$50,500.

This office conducted one community contact with a member of a local community organization of FNB's AA. The contact identified the need for possible down payment assistance or lower down payment programs for residential home loans. The contact was favorable in their comments about the performance of FNB and its participation in the community.

## PERFORMANCE CRITERIA

FNB demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products originated since the previous CRA evaluation, which are agricultural loans and commercial loans. The sample of loans was selected to determine the extent of lending within the AA, the distribution of loans by borrower income level, and the geographic distribution of loans.

### Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is comparable to similarly sized and situated institutions and is reasonable given the bank's performance context. The bank's quarterly LTD ratio for the past 23 quarters averaged 31 percent. Seven banks between \$100 and \$500 million, headquartered in the counties in FNB's AA, had an average LTD ratio of 41 percent, collectively, for the same period. The LTD ratios for this peer group of banks ranged from 23 to 62 percent.

### Lending in Assessment Area

FNB meets the standards for satisfactory performance with a substantial majority of loans originating in its AA. We reviewed a sample of agricultural and commercial loans that originated since the prior evaluation. The analysis included 50 total loans. The following table reflects the distribution of loans, by number and dollar volume, which originated in and out of the AA.

<b>Lending in Lavaca/Gonzales/Dewitt/Fayette AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	22	88	3	12	25	\$2,255	76	\$709	24	\$2,964
Agriculture	21	84	4	16	25	\$3,835	85	\$695	15	\$4,530
<b>Totals</b>	<b>43</b>	<b>86</b>	<b>7</b>	<b>14</b>	<b>50</b>	<b>\$6,090</b>	<b>81</b>	<b>\$1,404</b>	<b>19</b>	<b>\$7,494</b>

Source: Loan Sample, U.S. Census Data

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

Overall, FNB's lending exceeds the standards for satisfactory performance with excellent penetration of loans to businesses and farms of different sizes. We selected a sample of loans in the AA to evaluate performance for small business loans and small farm loans. The distribution of loans to businesses reflects excellent penetration to small businesses, or businesses with revenues of \$1 million or less.

One-hundred percent of the bank's sampled business loans, originated and purchased, were for small businesses. This is considered excellent when compared to demographic data that reports 73.65 percent of the area's businesses are considered small businesses. The following table shows the distribution of commercial loans among businesses of different sizes in the AA.

<b>Borrower Distribution of Loans to Businesses in Lavaca/Gonzales/Dewitt/Fayette AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73.65%	3.26%	23.09%	100%
% of Bank Loans in AA by #	100.00%	0.00%	0.00%	100%
% of Bank Loans in AA by \$	100.00%	0.00%	0.00%	100%

*Source: Loan sample; Dun and Bradstreet data for 2013*

The distribution of loans to farms reflects excellent penetration among small farms, or farms with revenues of \$1 million or less. Ninety-five percent of the bank's agricultural loans originated and purchased during the loan-sampling period were made to small farms. This is considered excellent compared to demographic data that shows 99.38 percent of the area's farms are considered small farms. The following table shows the distribution of agricultural loans among farms of different sizes in the AA.

<b>Borrower Distribution of Loans to Farms in Lavaca/Gonzales/Dewitt/Fayette AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.38%	0.10%	0.52%	100%
% of Bank Loans in AA by #	95.24%	4.76%	0.00%	100%
% of Bank Loans in AA by \$	93.53%	6.47%	0.00%	100%

*Source: Loan sample; Dun and Bradstreet data for 2013*

### **Geographic Distribution of Loans**

Overall, the distribution of loans reflects a reasonable dispersion throughout the bank's AA. As previously noted, there are two moderate-income census tracts in the bank's AA located in Gonzales County.

A contributing factor to the absence of lending in the moderate-income tract is the distance between FNB’s three offices located in Dewitt County, Lavaca County, and Fayette County and these tracts, which are located in Gonzales County where there is no office.

Of the fifteen middle-income tracts, three were identified as being distressed due to poverty. Lending analysis data shows that 5.56 percent of loans included in the sample, to both businesses and farms, are located within those middle-income distressed tracts. In addition, considering that less than 5 percent of the AA businesses and farms are located in moderate-income tracts, it is reasonable that the bank has no lending activity in those tracts. This is reflected in the tables that follow.

<b>Geographic Distribution of Loans to Businesses in Lavaca/Gonzales/Dewitt/Fayette AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
% of Total	0.00	0.00	4.70	0.00	67.42	36.36	27.88	63.64

Source: Loan Sample, U.S. Census Data

<b>Geographic Distribution of Loans to Farms in Lavaca/Gonzales/Dewitt/Fayette AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
% of Total	0.00	0.00	4.02	0.00	61.65	33.33	34.33	66.67

Source: Loan Sample, U.S. Census Data

**Responses to Complaints**

FNB has not received any consumer complaints related to its CRA performance during this 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.