



## **PUBLIC DISCLOSURE**

February 03, 2014

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

The First National Bank of Emory  
Charter Number 6814

170 East Quitman Street  
Emory, TX 75440

Office of the Comptroller of the Currency

225 East John Carpenter Freeway  
Suite 500  
Irving, TX 75062

**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 First National Bank of Emory (FNB Emory) has demonstrated a satisfactory record given the bank's size, financial condition, and the known credit needs of its assessment area (AA). Our conclusions were based on the bank's lending practices. The factors and data supporting our conclusion are:

- The bank's quarterly loan-to-deposit (LTD) ratio is reasonable.
- A majority of loans originated inside the bank's AA.
- The distribution of loans to borrowers of different income and businesses of different sizes exhibits reasonable penetration.

**SCOPE OF EXAMINATION**

This Performance Evaluation (PE) assesses the bank's performance under the Small Bank examination procedures, which focused on the lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. Our review focused on the bank's two primary product lines, residential real estate loans and commercial loans, including commercial real estate. The bank is not located in a Metropolitan Statistical Area (MSA) and therefore not required to report data under the requirements of the Home Mortgage Disclosure Act (HMDA).

The evaluation period ranges from July 1, 2008, the date of the prior PE, through February 3, 2014, the date of the current evaluation. However, the lending test concentrated on activity from January 1, 2011 through December 31, 2013, as this is representative of the bank's lending strategy since the last CRA examination.

To perform the lending test, we sampled 20 one-to-four family residential loans and 20 commercial loans. We also evaluated FNB Emory's average LTD ratio over the previous 23 quarters, comparing it to similarly situated banks within and in close proximity to FNB Emory's AA.

**DESCRIPTION OF INSTITUTION**

The First National Bank of Emory (FNB Emory) was chartered in 1903. It is 100 percent owned by Emory Bancshares, Inc. whose sole subsidiary is the bank. FNB Emory's total assets as of December 2013 are \$108 million. The most recent CRA PE was dated July 28, 2008 at which a Satisfactory rating was assigned.

There are two locations: the main office is located in Emory, Texas, and a branch located in Alba, Texas. The main office and the Alba branch are full service locations. Both locations include ATMs and drive-in facilities. The main office drive-in provides extended weekday and Saturday hours. The Alba branch offers extended hours on Friday via its drive-in facility.

FNB Emory's main competition consists of large and small national and state banks. The majority of the larger financial institutions operate just outside the bank's AA. Based on the FDIC's annual Market Share Report as of June 30, 2013, there are 10 FDIC-insured institutions with 24 offices located within Rains and Wood Counties. Total deposits within these two counties equal \$816 million, of which FNB Emory is ranked fifth, holding 10.28 percent of the deposits.

Based on conversations with bank management, FNB Emory's primary business focus is one-to-four family residential real estate lending, which composes 35% of its loan portfolio mix. As of December 31, 2013, net loans were 33 percent of FNB Emory's total assets of \$108 million. The following table reflects FNB Emory's principal loan portfolio summary.

<b>The First National Bank of Emory Loan Portfolio Summary as of December 31, 2013</b>		
<i>Loan Category</i>	<i>Dollar Volume (000's)</i>	<i>Percentage</i>
<b>1-4 Family Residential Loans</b>	\$12,314	35%
<b>Agriculture Loans (including real estate)</b>	\$ 9,622	27%
<b>Commercial and Commercial Real Estate Loans</b>	\$ 8,542	24%
<b>Consumer Loans (not secured by real estate)</b>	\$ 3,467	10%
<b>Construction and Development</b>	\$ 1,045	3%
<b>Other Loan Types (excluding consumer loans)</b>	\$ 552	1%
<b>TOTAL</b>	<b>\$ 35,542</b>	<b>100%</b>

*Source: The December 30, 2013, Federal Financial Institutions Examination Council's (FFIEC) Consolidated Reports of Condition and Income (Call Report).*

There are no legal or financial impediments to FNB Emory ability to meet the credit needs of its AA.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNB Emory's AA includes three census tracts: 9501 and 9502 in Rains County and 9504 in Wood County. The two census tracts in Rains County make up the entire county, which is home to the cities of Point and Emory. The third census tract in Wood County incorporates the city of Alba and is the only portion of Wood County included in the AA.

The AA does not fall within a metropolitan statistical area (MSA). The AA is composed of three middle-income tracts and does not arbitrarily exclude any low- or moderate-income areas. The following table reflects the demographic and economic characteristics of the AA:

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS* OF ASSESSMENT AREA</b>	
<b><i>POPULATION - YEAR 2013</i></b>	
Number of Families	4,288
Number of Households	5,778
<b><i>GEOGRAPHIES</i></b>	
Number of Census Tracts (CTs)	3
# / % Low-Income CTs	0 / 0.0%
# / % Moderate-Income CTs	0 / 0.0%
# / % Middle-Income CTs	3 / 100%
# / % Upper-Income CTs	0 / 0.0%
<b><i>MEDIAN FAMILY INCOME (MFI)</i></b>	
2010 MFI for AA (Rains)	\$49,811
2010 MFI for AA (Woods)	\$51,364
2011 HUD-Adjusted MFI	\$48,600
2012 HUD-Adjusted MFI	\$48,700
2013 HUD-Adjusted MFI	\$50,500
<b><i>ECONOMIC INDICATORS</i></b>	
Unemployment Rate	3.00%
2010 Median Housing Value	\$77,500
% of Households Below Poverty Level - Rains	12.39%
% of Households Below Poverty Level - Wood	11.06%

Seventy-eight percent of the housing units in the AA are occupied, with 65 percent owner-occupied and 13 percent rental-occupied. The remaining twenty-one percent of the housing units in the AA are vacant. Bank management stated there is a significant portion of the community that is retired and/or that lives on a fixed income. Based on the 2010 U.S. Census, 46 percent of the households in the AA receive Social Security payments, 22 percent receive retirement payments, and one percent receives public assistance. The largest employers in the bank's market area include Rains Independent School District, Rains County, and FNB Emory.

The local economy continues to experience the effect of the recent economic downturn. We contacted members of the local community during this evaluation period, including a representative speaking for a local economic development organization. One of the community contacts identified the community's credit needs as one-to-four family residential loans, transportation for seniors, and jobs. The other contact identified a mix of one-to-four family residential, quality residential rental property and commercial loans as the community's credit needs.

During the examination cycle, the bank has participated over \$765 thousand in Emory's Economic development Corporation, \$465 thousand in school bonds, and \$745 thousand for the construction and improvement of the city's government.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### LENDING TEST

The bank's performance under the lending test is rated Satisfactory.

### Loan-to-Deposit Ratio

FNB Emory's LTD ratio is reasonable and meets the standards for satisfactory performance given the bank's size, financial condition, and the credit needs of the AA. This determination is based on the bank's 23-quarter average LTD ratio of 45 percent. During this evaluation period, FNB Emory's LTD ratio ranged from a low of 38 percent to a high of 53 percent.

Management considers the banks shown in the following table to be similarly situated institutions. All are community banks with assets ranging from \$435 million to \$158 million that actively offer similar loan products and have banking offices located in the AA. Other larger regional and large banks, including Capital One, Prosperity Bank, Austin Bank and Southside Bank have a presence in the AA but given the significantly larger asset size, these institutions were not used for comparison.

The quarterly average LTD ratio for each similarly situated institution is listed below. Please note that no ranking is intended or implied.

<b>Loan-to-Deposit Ratios</b>		
<b>Financial Institution</b>	<b>Total Assets (000's) as of 12/31/2013</b>	<b>Average LTD Ratio</b>
<i>First National Bank of Emory</i>	<i>\$108,000</i>	<i>45%</i>
First National Bank of Winnsboro	\$134,128	89%
Mineola Community Bank, SSB	\$158,425	71%
The First National Bank of Gilmer	\$272,523	69%
Bank Texas National Association	\$400,167	68%
The City National Bank Sulfur Spring	\$434,490	82%

*Source: FFIEC Call Report. Data gathered from June 30, 2008, to December 30, 2013.*

### Lending in Assessment Area

A majority of the number and dollar amount of FNB Emory’s loans were originated inside the AA. As depicted in Table 1 (000’s omitted), all of the residential loans sampled originated inside the bank’s AA. In addition, a majority of the number of commercial and commercial real estate loans also originated within the AA.

<b>Table 1 - Lending in Rains – Wood AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$(000's)	%	\$(000's)	%	
Residential RE	20	100%	0	0%	20	2,266	100%	0	0%	2,266
Commercial	15	75%	5	25%	20	1,197	34%	2,341	66%	3,537
<b>Totals</b>	<b>35</b>	<b>88%</b>	<b>5</b>	<b>12%</b>	<b>40</b>	<b>3,463</b>	<b>56%</b>	<b>2,341</b>	<b>47%</b>	<b>5,804</b>

Source: sample of loans.

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

FNB Emory’s distribution of residential loans to borrowers of different income levels demonstrates a reasonable penetration.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Rains – Wood AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	17	5	21	15	23	35	39	45

Source: 2010 US Census data and loan sample

FNB Emory’s distribution of loans to businesses in the AA demonstrates a reasonable penetration among businesses of different sizes.

As illustrated in Table 2A, 90 percent and 53 percent of the banks loans to small businesses by number and dollar, respectively were within the AA. A small business is defined as a business with revenues of \$1 million or less.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Rains – Wood AA</b>				
Business Revenues (or Sales)	<=\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.14%	1.69%	22.17%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0.00%	100%
% of Bank Loans in AA by \$	53.07%	46.93%	0.00%	100%

Source: Loan sample; Dunn and Bradstreet data.

### **Geographic Distribution of Loans**

A meaningful analysis for the geographic distribution of loans in the bank's AA could not be performed. There are no designated low- or moderate-income census tracts within FNB Emory's AA.

### **Responses to Complaints**

FNB Emory did not receive any complaints or public comments pertaining to their 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 AA 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.