



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 10, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Tahoka
Charter Number 8597

1601 South First Street
Tahoka, TX 79373

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, 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 Tahoka (FNB) has a satisfactory record of meeting the credit needs of the community based on the following:

- The bank's average quarterly loan to deposit ratio of 30 percent is reasonable based on the bank's performance context and lending opportunities within its assessment area (AA).
- A majority of the bank's primary loan products were originated in the AA. About 83 percent of the number of loans and 81 percent of the dollar volume of loans were to borrowers in the AA.
- The level of lending to farms with annual revenues less than or equal to \$1 million dollars reflects excellent penetration, with 100 percent of loans to borrowers in the AA. Borrower distribution of consumer loans is reasonable overall.

SCOPE OF EXAMINATION

This Performance Evaluation assesses FNB's record of meeting the credit needs of the community in which it operates, consistent with safe and sound banking practices. FNB was evaluated using four of the five small bank criteria: loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to farms of different sizes, and responses to CRA-related complaints. The fifth criterion, geographic distribution of loans, was not applicable because there are no low- or moderate-income census tracts in the bank's AA.

To evaluate FNB's lending performance, we selected a random sample of loans from the bank's primary loan types. Primary loan types are those products that have been originated at the highest percentage by dollar and/or number of loans. Primary products sampled during this evaluation period were agricultural (23 loans) and consumer (47 loans) originations between January 1, 2008 and December 31, 2011.

DESCRIPTION OF INSTITUTION

The First National Bank of Tahoka is a community bank located in Tahoka, Texas, the county seat for Lynn County. Tahoka is approximately 32 miles south of Lubbock, Texas. The bank is wholly owned by Tahoka First Bancorp, Inc., a one bank holding company located in Tahoka, Texas. FNB has the distinction of being the only locally owned bank in Lynn County. The one branch location offers drive-up facilities and traditional deposit services and loans. The bank maintains business hours consistent with area and industry norms. There are no automated teller machines.

As of September 30, 2012, the bank had total assets of \$67 million. Loans and leases comprise 31.42 percent of total assets. Loan products include agricultural, commercial, consumer, and real estate loans. The table below details the composition of FNB's loan portfolio.

Loan Portfolio Composition as of September 30, 2012					
Loan Category	# of Loans	% of Portfolio		\$(000) of Loans	% of Portfolio
Agricultural Production	114	24.62		8,681	45.94
RE Residential (1-4 family)	55	11.88		2,098	11.10
Consumer	219	47.30		1,708	9.03
RE Farmland	16	3.46		1,765	9.34
Commercial and Industrial	54	11.66		3,413	18.05
RE Nonfarm/Nonresidential	1	0.22		686	3.63
Real Estate (RE) Construction	2	0.43		525	2.78
Other	2	0.43		30	0.15
Total	463	100%		18,906	100%

Source: September 30, 2012 Call Report

The Board and management's primary focus is to serve the agricultural, commercial, and consumer customers of Lynn County. FNB has the ability to meet the various credit needs in its community based on its financial condition, the local economy, product offerings, and competition. The bank was previously assigned a "Satisfactory" rating at its June 4, 2007 CRA examination.

DESCRIPTION OF ASSESSMENT AREA(S)

The Board has established Lynn County as the bank's AA. Lynn County is located in the South Plains region of Texas. Other principal towns in the county are Wilson, New Home, and O'Donnell. The county is one contiguous political subdivision and does not exclude any low- or moderate-income areas. The bank is in compliance with the assessment criteria as outlined by 12 CFR 25.41. Lynn County is largely an agricultural community with dry land cotton production being the main agricultural crop. The larger non-agricultural employers are Lyntegar (electric cooperative), the independent school districts of Lynn County, Lynn County Hospital, and local government agencies. Specific demographic data and economic data for the AA are listed in the table below.

Demographic and Economic Characteristics of Lynn County AA	
<i>Population</i>	
Number of Families	1,785
Number of Households	2,366
<i>Geographies</i>	
Number of Census Tracts	3
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	0.00
% Middle-Income Census Tracts	100.00
% Upper-Income Census Tracts	0.00
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$32,894
2008 HUD-Adjusted MFI	\$43,600
2009 HUD-Adjusted MFI	\$45,600
2010 HUD-Adjusted MFI	\$46,500
2011 HUD-Adjusted MFI	\$48,600
<i>Economic Indicators</i>	
Unemployment Rate	3.44%
2011 Median Housing Value	\$39,537
% of Households Below Poverty Level	22.95%

Source: 2000 Census data and HUD updated income data

Based on the 2000 Census data, Lynn County has a population of approximately 6,550 living within the three contiguous census tracts. All three tracts are middle-income. Demographic information for the AA shows that 28.28 percent of families are low income and 18.51 percent of families are moderate-income. The unemployment rate is 3.44 percent, and 22.95 percent households are below the poverty level. The 2011 HUD-Adjusted median family income is \$48,600.

Competition is strong inside the AA and is primarily from much larger financial institutions which operate branches in the AA. Ag Texas Farm Credit Services is a statewide agricultural lending cooperative with a branch in Tahoka. First Bank & Trust, headquartered in Lubbock, Texas operates two branches in FNB's AA – Tahoka and Wilson. Finally, National Bank of Big Spring operates a branch in O'Donnell.

Competition outside of FNB's AA is significant due its close proximity to Lubbock. The wide variety of service offerings makes the financial institutions of Lubbock viable alternatives for Lynn County residents.

Two community contacts were interviewed for the purposes of determining a community profile, identifying credit needs of the community, and determining the performance of local financial institutions. Both contacts indicated that the banking community is effective in meeting the credit needs of the community, particularly in regards to the credit needs of the local farmers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB is meeting the credit needs of its AA in a satisfactory manner. The conclusion is based on the analysis of performance criteria, consistent with the bank's available resources and capabilities. The following sections provide details of our assessment of each performance criteria.

Loan-to-Deposit Ratio

FNB's LTD ratio is reasonable given the bank's size, financial condition, competition, and AA credit needs. The LTD evaluation period encompasses the 22 quarters from June 30, 2007 through September 30, 2012. The quarterly average LTD ratio for each similarly situated bank is listed below. Please note that no ranking is intended or implied.

LOAN-TO-DEPOSIT RATIO		
Institution	Total Assets \$ (000s) As of 09/30/12	Average Loan-to-Deposit Ratio
First National Bank of Tahoka	66,745	29.83%
Citizens National Bank of Crosbyton	41,770	35.49%
The First National Bank of Floydada	92,318	44.31%
Citizens State Bank, Anton	34,984	57.34%

Source: Institution Reports of Condition from June 30, 2007 to September 30, 2012

During the evaluation period FNB's LTD ratio ranged from a low of 19.74 percent to a high of 40.76 percent, with a quarterly average of 29.83 percent. The average LTD ratio for similarly situated banks for the same period was 45.71 percent. FNB's average is well below that of the similarly situated banks. This is attributed to two primary external factors. First, there is downward pressure on the LTD ratio due to increased deposits by local customers from oil and gas lease income. Second, loan demand has been low due to competition and the drought impacting dry land cotton crops.

Several oil and gas companies began in recent years to acquire lease agreements with local property owners in order to conduct tests for the existence of oil and gas beneath their properties. At FNB, 84 customers have received these payments beginning in late 2010. Deposit growth of \$7.2 million or 12.33 percent between 2010 and 2011 is largely attributed to these payments.

The LTD ratio has been negatively impacted by low loan demand. Agricultural lending competition from other financial institutions is strong, particularly from non-bank Ag Texas Farm Credit Services. Loan demand has also been significantly impacted by yield fluctuations in dry land cotton farming. In 2008, cotton farm loans were low due to farmers using their own liquidity from 2007's bumper crop. Loans increased in 2009, but not to the same dollar volume seen in prior years. The drought in 2010 and 2011

caused cotton loans to decline significantly. Lines of credit never fully funded due to crop losses early in the growing cycle and early crop insurance payments also caused any outstanding lines to pay down at an accelerated pace. As a result, FNB’s loan growth was low at 3.5 percent for 2010 and plummeted to -33.4 percent for 2011.

Lending in Assessment Area

A majority of the bank’s lending activity is located within the AA. Our review focused on the bank’s primary loan product lines of agricultural and consumer loans. Analysis of the samples found that 83 percent of the number of loans and 81 percent of the dollar volume of loans were extended to borrowers within the bank’s AA. The breakdown by loan category is illustrated in the following table.

Lending in The First National Bank of Tahoka AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	20	87	3	13	23	1,033	84	191	16	1,224
Consumer	38	81	9	19	47	406	74	145	26	551
Totals	58	83	12	17	70	1,439	81	336	19	1,775

Source: Loan sample used for CRA performance analysis

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

FNB’s loan portfolio reflects a reasonable distribution among borrowers of various income levels and farms of different sizes within its AA. To perform the analysis, we reviewed revenue and income information from 20 agricultural loans and 38 consumer loans originated in the AA.

Agricultural Loans – Lending reflects excellent penetration of loans to small farms in the AA. Of the loans in our sample, 100 percent were to farms reporting annual revenues below \$1 million. Based on the 2011 Dunn and Bradstreet data, there are 148 farms within the AA. Of this number 97 percent of farm businesses reported revenues less than or equal to \$1 million.

Borrower Distribution of Loans to Farms in The First National Bank of Tahoka AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97%	2%	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, Dunn and Bradstreet data

Consumer Loans – The analysis reflects an overall reasonable penetration of consumer loans to low- and moderate-income households. Loans to low-income borrowers are significantly below the census demographic, but the volume is reasonable. The lower performance is attributable to the large percentage of households, 22.95 percent, that is below the poverty level in the AA. This percentage is substantially higher than the Texas state average of 15.40 percent (2000 US Census). In addition, FNB tries to reach borrowers at this level of income by establishing in its loan policy a minimum loan amount of \$750. FNB’s lending to moderate-income borrowers exceeds the standard for satisfactory performance. The table below reflects the results of the analysis of the consumer loans originated in FNB’s AA.

Borrower Distribution of Consumer Loans in The First National Bank of Tahoka AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	28.28	10.53	18.51	31.58	15.17	39.47	38.04	18.42

Source: 2000 Census data; Loan Sample

Geographic Distribution of Loans

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

Responses to Complaints

No complaints regarding CRA performance have been received by FNB during the evaluation period. This has a neutral impact on the bank’s performance. FNB has systems in place to ensure that complaints are addressed in a timely manner.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.