



## **PUBLIC DISCLOSURE**

November 28, 2016

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

The First National Bank of Bellville  
Charter Number 4241

100 East Main Street Bellville, TX 77418

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 CRA RATING: This institution is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Outstanding.**

The First National Bank of Bellville (FNB or Bellville) has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- A majority of lending is inside the assessment area (AA) by number and dollar amount of loans originated and purchased. Of the total residential real estate, business, and consumer loans originated/purchased during the evaluation period, 77.18 percent by number were in the AA;
- The overall distribution of loans reflects reasonable penetration of borrowers of different income levels and businesses of different sizes;
- The overall geographic distribution of residential real estate, business, and consumer loans is excellent and exceeds the characteristics of the AA; and,
- The bank's community development (CD) activities demonstrate excellent responsiveness to community development needs in its AA.

## **Scope of Examination**

We completed a full-scope review of the bank's Community Reinvestment Act (CRA) performance using the Intermediate Small Bank (ISB) examination procedures, which includes a lending test and a CD test. The Lending Test evaluates the bank's record of meeting the credit needs of the bank's AA through its lending activities. The CD test evaluations the bank's responsiveness to CD needs in its AA through qualified CD loans, investments and donations, and services.

As an ISB, management is not required to collect and report information on business loans. We completed a data integrity review in April 2016 to determine the accuracy of the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) to be used at this evaluation. The review deemed the HMDA LAR to be reliable. For the business and consumer loans, we populated the required information that is used in our analysis.

FNB's primary lending products are residential real estate loans, consisting of 1-4 family residential mortgage loans; business financing, consisting of loans to small and medium-sized businesses; and consumer loans. Residential mortgage loans represented 43.18 percent of the total by dollar amount and 23.63 percent of the number of loans. Business loans represented 21.58 percent of the dollar amount of loans and 14.38 percent of the number of loans. Consumer loans represented 31.97 percent of the number of loans.

The Lending Test covered the period from January 1, 2014 through September 30, 2016 for business and consumer loans and all, originated residential mortgage owner-occupied loans for the same period.

To evaluate the bank's lending performance, for residential real estate loans, we used all of the loans originated and reported on the HMDA LARs, which consisted of 121 loans in number and \$19.3 million by dollar amount. Of the total HMDA LAR reportable loans, 86 loans were located in the AA.

For business and consumer loans, we reviewed a statistically valid sample of 129 business loans and 140 consumer loans originated during the evaluation period. Of the total loans reviewed, 98 business loans totaling \$6 million and 117 consumer loans totaling \$1.4 million were located in the AA.

For the CD Test, our review included all CD loans, investments and donations, and services since the date of the last CRA performance evaluation, November 4, 2013 through the date of this performance evaluation, November 28, 2016.

## **Description of Institution**

FNB Bellville is a full-service community bank headquartered in Bellville, Texas at 100 East Main Street. FNB is a wholly-owned subsidiary of Industry Bancshares, Inc (IBI), a multibank holding company. Affiliated banks owned by IBI include Industry State Bank, Fayetteville Bank, Citizen's State Bank, First National Bank of Shiner, and Bank of Brenham. As part of IBI, FNB participates in its holding company strategy of maintaining investments, which enables the banks to maintain a steady net interest margin and pay higher interest rates on deposits. FNB consistently pays higher interest rates than local peer banks.

The bank has a branch located at 31384 FM 2920 in Waller, Texas. Additionally, since the previous performance evaluation, the bank opened a new branch located at 6207 Commerce in Wallis, Texas. There is also a deposit taking Automated Teller Machine (ATM) located at 730 Meyer in Sealy, Texas. The home office is located in an upper-income census tract (CT), the Waller branch in a middle-income CT, and the Wallis branch in a moderate-income CT. Each branch has a deposit taking ATM, accessible lobby hours, and drive through facilities.

Total bank assets of \$661 million and tier 1 leverage capital of 10.37 percent were reported as of September 30, 2016. At September 30, 2016, the investment portfolio represented 72 percent of total assets and the loan portfolio represented 21 percent of total assets. A majority of the investment portfolio, 57 percent, is in municipal securities. Additionally, since the prior evaluation period (PE), total assets increased 31 percent, deposits increased 32 percent, and net loans increased nine percent.

During the evaluation period, the bank's assessment area experienced higher unemployment as a result of oil company related closures due to the decline in oil prices and the oil and gas industry, and the temporary closure of Blue Bell Creameries. Surrounding communities had large oil and gas related businesses that laid off employees with some individuals living within the bank's AAs. Additionally, Blue Bell Creameries employed a number of people in the bank's AAs. When the Brenham Creamery was temporarily closed by the Food and Drug Administration, there were many employees that were laid off or furloughed. These layoffs affected loan demand.

Loan products consists of real estate, commercial/business, consumer and agriculture. In addition to a variety of loan products, Bellville offers several deposit products including business and personal checking, bonus checking, money market accounts, savings accounts, individual retirement accounts, and certificates of deposit. There are no legal or financial factors that impeded the bank's ability to help meet the credit needs of the AA. FNB was rated "satisfactory" at the last CRA evaluation dated November 4, 2013.

## **Description of Assessment Area(s)**

FNB has four contiguous assessment areas (AAs) in Texas. The bank's AAs include 16 census tracts (CTs) in parts of Austin, Grimes, Waller, and the northwest section of Harris County. All AAs, except for Grimes County, are located in the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA), a nine-county metropolitan area in Texas. This MSA is the fifth largest in the country with a population of approximately 6.6 million as of 2015. These three AAs are also part of the 13 counties in the Gulf Coast Region of Texas. All AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income CTs. Exclusion of some CTs was based on the area being heavy farmland or CTs that have intense banking competition. There is only one low-income CT (6%) in all of the bank's AAs, which is located in Waller County. There are five moderate-income CTs (31%), nine middle-income CTs (57%), and one upper-income CT (6%) in the bank's AAs.

### Austin County

Austin County is located between Houston, Texas, the largest city in the state, and Austin, Texas, the state's capital. The AA is comprised of six census tracts (CTs), of which none are low-income, two are moderate-income CTs (33%), three are middle-income CTs (50%), and one is an upper-income CT (17%). Based on The U.S. Census Bureau estimates, Austin County's 2015 population was 29,563 which is about a 4.1 percent increase from the population counted in 2010. According to the Texas Workforce Commission, Austin County unemployment averaged 5.30 percent in October 2016. Bellville is the county seat and has an estimated population of 4,262 as of 2015. Other cities in the county include Sealy and Wallis, but approximately 54 percent of the county's population live in the rural areas outside of the county's cities and townships.

Some of the top employers in Austin County are Wal-Mart, Toyota Distribution, BAE Systems, and the local independent school districts throughout the county. The median household income in 2015 was approximately \$53,687. FNB's main office in Bellville and the Wallis Branch are located in Austin County. Both locations have deposit taking ATMs.

FNB competes for market share with several other banks within Austin County. According to the June 30, 2016 Federal Deposit Insurance Corporation (FDIC) Market Share Report, there were approximately nine financial institutions (both Federal and State chartered banks) operating 13 branches in Austin County. Bank competitors include Industry State Bank with 34 percent market share, Citizens State Bank with 27 percent market share, and Austin County State Bank with 8 percent market share. FNB has 27 percent of the deposit market share, which is the second largest in the county.

#### Northwest Harris County

The AA located in Northwest Harris County includes two middle-income CTs. Harris County has the highest population in Texas and is also the third most populated in the nation. According to 2015 U.S. Census Bureau estimates, the county had a population of 4.5 million with a growth rate of 11 percent since the year 2010. The county seat is Houston, which is the largest city in Texas and the fourth largest city in the nation. U.S. Census information for Houston reflects the population increased by nine percent from 2.1 million in 2010 to 2.3 million estimated in 2015. Northwest Harris County has also experienced significant growth in the recent years due to the excellent schools and hospitals in the area, along with multiple large housing developments. Communities and towns that are located specifically in the Northwest section of the county are Cypress, Hockley and Tomball. FNB's Waller Branch and ATM provide products and services to Northwest Harris County and the neighboring Waller County.

Major employers in Northwest Harris County include National Oilwell Varco, Thrustmasters, Aldine and Cyfair Independent School Districts, and North Cypress Medical Center. The median household income for Harris County in 2015 was \$54,457. According to the Texas Workforce Commission, in October 2016, Harris County's average unemployment rate was 5.1 percent.

Banking competition in Harris County is significant. According to the June 30, 2016 FDIC Market Share Report, there were approximately 79 financial institutions (both Federal and State banks) operating 998 branches in Harris County. The five largest competitors in Harris County include JP Morgan Chase Bank, National Association (NA) with 43 percent market share, Wells Fargo Bank, NA with 10 percent market share, Bank of America, NA with 9 percent market share, Compass Bank with 7 percent market share, and ZB, NA with 4 percent market share. FNB ranked 43<sup>rd</sup> of the banks within Harris County with 0.1 percent of the deposit market share.

Grimes County

Grimes County is one of 30 counties in the Central Region of Texas. The Grimes County AA is comprised of three CTs, of which none are low-income, one is a moderate-income CT (34%), two are middle-income CTs (66%), and none are upper-income CTs. Based on The U.S. Census Bureau estimates for 2015, Grimes County's population was 27,512. This is a 3.6 percent increase from the population in the 2010 Census. Anderson is the county seat. Other cities in the county include Navasota, Bedias, Iola, and Todd Mission. Agriculture is the preeminent economic activity in Grimes County. The main industries providing employment in the county are agriculture/fishing and hunting (30.4%), entertainment and food services (11.5%), manufacturing (11%), and retail trade (10.7%). Navasota is the largest populous city in the county, and some of its major employers are Grant Prideco Inc., Interstate Southwest Forge Co., and Ergo Genesis Body Bilt Inc. The median household income in 2015 was \$46,195. According to the Texas Workforce Commission, the average unemployment rate in Grimes County in October 2016 was 6.6 percent. Although FNB does not have a branch or ATM located in Grimes County, customers are able to use the nearby Waller Branch and deposit taking ATM in the neighboring county.

Banking competition in the Grimes County AA is significant. According to the June 30, 2016 FDIC Market Share Report, there were approximately six financial institutions (both Federal and State banks) operating a total of seven branches in Grimes County. The three largest competitors include The First National Bank of Anderson, NA with 33 percent market share, First State Bank of Bedias with 24 percent market share, and Prosperity Bank with 15 percent market share.

Waller County

The Waller County AA is comprised of five CTs, of which one is a low-income CT (20%), two are moderate-income CTs (40%), two are middle-income CTs (40%), and none are upper-income CTs. Waller County's estimated population in 2015 was 48,656. Hempstead is the county seat and the most populous city in the county. Other cities in the county include Brookshire, Prairie View, and Waller. Waller County is home to Prairie View A & M University, the second oldest public institution for higher learning education in the state of Texas.

The available workforce consists of 265,000 employees living within a 25-mile radius of Waller, including over 42,000 people employed in the manufacturing and wholesale industries. Top industries in the area are educational and healthcare services (28%), manufacturing (17%), professional and management services (10%), and retail trade (9%). Major employers include Prairie View A&M University, Igloo, Wal-Mart, and local independent school districts throughout the county. The median household income in 2015 was \$51,348. According to the Texas Workforce Commission, the average unemployment rate in Waller County in October 2016 was 5.6 percent.

Banking competition in Waller County is significant. According to the June 30, 2016 FDIC Market Share Report, there were approximately four Federal chartered financial institutions operating seven branches in Waller County.

The three largest competitors include Prosperity Bank with 57 percent market share, Wells Fargo Bank, NA with 20 percent market share, and Trustmark National Bank with 17 percent market share. The Waller Branch is located across the street from the northwest edge of Harris County. Therefore, the Waller County Branch deposit share is included in the Harris County FDIC Deposit Market Share Report. Based on deposit information that was provided by the bank, as of June 30, 2016, the Waller Branch deposit market share in Waller County was .02 percent.

During the evaluation, we contacted a local small business development center that provides services to help meet the economic and credit needs of both Waller and Grimes County residents. The contact indicated a need for general banking facilities and a Community Development Financial Institution in the Waller County.

*Please refer to FNB's CRA Public File for more information about the institution.*

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

FNB Bellville's overall performance under the Lending Test is satisfactory given the performance context and despite the low loan-to-deposit (LTD) ratio.

#### **Loan-to-Deposit Ratio**

The bank's LTD ratio is less than reasonable and needs to improve. The bank's LTD ratio averaged 27.48 percent in the 12 quarters since the prior CRA evaluation. The average LTD ratio for a peer group of four banks headquartered in Austin, Leon, Fayette, and Harris counties with assets between \$448 million and \$855 million was 34.43 percent, ranging from a low of 16.07 percent to a high of 83.68 percent. Excluding public funds, FNB's LTD ratio averaged 33.08 percent since the prior CRA evaluation.

FNB is the depository institution for public entities located in Austin, Waller, and Travis counties. As such, it has a significant level of public funds not available for lending. Additionally, a large volume of investment securities and increased deposits have historically been a part of the bank's strategic plan. However, since the previous performance evaluation, deposits increased by 32 percent and loans increased by nine percent, which contributed to the decline in the LTD ratio.

Factors affecting the LTD ratio were, as previously mentioned, the investment strategy, oil company closures due to the decline in the oil industry, and the temporary closure of the Brenham Blue Bell Creamery. A number of people in the bank's AA were employed by these companies. Additionally, there were nearly 100 consumer loan denials in year 2014 and over 100 denials in years 2015 and year to date September 2016, many due to collection actions or judgments, or delinquent credit obligations.

## Lending in Assessment Area

Lending in the AA is more than reasonable. A majority of loans originated during the evaluation period were inside the bank's AA. FNB originated 77 percent of loans by number and 60 percent by dollar amount in its AA. FNB grants loans without minimal limits. The bank's performance is shown in the table below:

<b>Table 1 - Lending in Bellville AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage loans	86	71.07	35	28.93	121	11,140	57.69	8,171	42.31	19,311
Business Loans	98	75.97	31	24.03	129	6,046	59.57	4,103	40.43	10,149
Consumer Loans	117	83.57	23	16.43	140	1,396	81.19	323	18.81	1,719
Totals	301	<b>77.18</b>	89	22.82	390	18,592	<b>59.60</b>	12,597	40.40	31,179

Source: loan sample.

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

Overall, the distribution of loans reflects a reasonable penetration of businesses of different sizes and households of different income within the AA. The distribution meets the standard for satisfactory performance.

## Residential Real Estate

Owner occupied residential real estate loans is a primary product. The distribution of residential real estate loans reflects a reasonable penetration of loans to borrowers of different income levels. Lending to low-income borrowers reflects adequate penetration for home purchase loans and poor penetration for home improvement loans. Lending to moderate-income borrowers reflect good penetration for home purchase loans and adequate penetration for home improvement loans. There were not enough home refinance loans to make a meaningful analysis. The bank's performance is shown in the following table:

Table 2 - Borrower Distribution of Residential Real Estate Loans in Bellville AA								
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
Home purchase	25.35	<b>17.31</b>	18.05	<b>15.38</b>	21.44	23.08	35.17	44.23
Home improvement	25.35	<b>10.00</b>	18.05	<b>10.00</b>	21.44	25.00	35.17	55.00
Home Refinance – Not enough								

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

### Business Loans

The distribution of number of loans and dollar amount of loans to businesses with annual revenues of \$1 million or less is excellent and exceeds the AA characteristics. The bank’s performance is shown in the following table:

Table 2A - Borrower Distribution of Loans to Businesses/Farms in Bellville AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	84.95	5.81	9.24	100%
% of Bank Loans in AA by #	<b>95.92</b>	4.08	0.00	100%
% of Bank Loans in AA by \$	<b>97.69</b>	2.31	0.00	100%

Source: Dun and Bradstreet data; loan sample.

### Consumer Loans

The distribution of consumer loans to low-and moderate-income borrowers by number, is reasonable and meets the standard for overall satisfactory performance. The penetration of low-income households by number is below the AA percentage but is considered adequate performance. The penetration of moderate-income households by number exceeds the AA percentage which is excellent performance. The bank’s performance is shown in the following table:

Table 2B - Borrower Distribution of Consumer Loans in Bellville AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	27.78	<b>17.95</b>	16.26	<b>20.51</b>	19.01	23.93	36.75	36.75

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

### Geographic Distribution of Loans

The geographic distribution of loans is excellent and exceeds the characteristics of the census data. The census data and the bank's AA for this analysis did not contain any low-income CTs. Lending in moderate-income CTs exceeds the characteristics of the census data for all loan products including residential real estate loans, business loans, and consumer loans. The loan samples did not identify any unexplained conspicuous gaps in the geographic distribution of loans.

For residential real estate loans, the distribution significantly exceeds the census data characteristics as shown in the following table:

Table 3 - Geographic Distribution of Residential Real Estate Loans in Bellville AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home purchase	0.00	0.00	32.69	<b>42.31</b>	60.96	30.77	6.35	26.92
Home improvement	0.00	0.00	32.69	<b>60.00</b>	60.96	20.00	6.35	20.00

Source: U.S. Census data; HMDA data.

For business loans, the distribution exceeds the census data characteristics, as shown in the table below.

<b>Table 3A - Geographic Distribution of Loans to Businesses/Farms in Bellville 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
Commercial Loans	0.00	0.00	33.19	<b>36.73</b>	59.31	42.86	6.80	20.41

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

For consumer loans, the distribution exceeds the census data characteristics, as shown in the following table:

<b>Table 3B - Geographic Distribution of Consumer Loans in Bellville AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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	0.00	0.00	33.55	<b>35.90</b>	60.99	42.74	5.46	21.37

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

### Responses to Complaints

The bank did not receive any CRA related complaints during the evaluation period.

### COMMUNITY DEVELOPMENT TEST

The bank demonstrated an outstanding record regarding the Community Development (CD) Test. The level of CD activities demonstrates excellent responsiveness to the needs of the community. Factors supporting this conclusion include an excellent record regarding qualified investments/donations, an adequate record regarding qualified CD loans and services, combined with good responsiveness to CD needs. FNB provided \$76.3 million qualifying investments/donations and \$3.8 million in qualifying CD loans. In addition, FNB bank officers provided 27 CD services to 13 organizations during the evaluation period.

### Number and Amount of Community Development Loans

FNB originated 32 CD loans totaling \$3.8 million. CD lending activities were primarily concentrated in economic development initiatives.

Of the total qualified CD loans, 25 loans, totaling \$2.7 million supported economic development in the form of job creation and retention in the bank's AA. Five loans, totaling \$928 thousand supported affordable housing for LMI individuals. Two loans, totaling \$111 thousand, were to an entity that provides community services to LMI youth in FNB's AA. CD lending activities exhibited good responsiveness to the identified needs in the area, specifically by supporting small businesses and permanent job creation through economic development.

### **Number and Amount of Qualified Investments**

FNB provided an excellent level of qualified investments and donations. FNB made 289 qualifying investments and donations during the review period totaling \$76.1 million. Of the total investments, \$73.4 million were municipals used to support disaster recovery activities. Other investments included one mortgage-backed security (MBS) in the amount of \$2.1 million, and three Small Business Investment Company (SBIC) with funding of \$529 thousand.

Of the qualifying investments, 253 were municipal investments utilized for the revitalization and stabilization of designated disaster areas. The Federal Emergency Management Agency (FEMA) declared parts of the Gulf Coast major disaster areas following hurricanes Katrina and Rita in 2005. Due to the long-term recovery efforts, CRA consideration for these municipal investments was extended by 36-months. In addition to the hurricane disaster related municipals, FNB invested in municipals used to revitalize and stabilize Texas areas with severe storms, winds, and flooding in the designated disaster areas.

FNB invested in a \$2.1 million mortgage-backed security (MBS) pool that was purchased from the Government National Mortgage Association (GNMA). This government sponsored program provides affordable housing financing to low- and - moderate income borrowers. A majority of the loans in the pool were in the bank's AA.

FNB provided 36 charitable contributions totaling \$163 thousand to organizations that offer community services to LMI individuals. Contributions benefited scholarship funds and youth programs for LMI students, as well as organizations that provide food and essentials to families who are struggling economically.

### **Broader Statewide or Regional Area**

FNB invested in two qualified SBICs with a committed investment amount of \$2.5 million and a funded amount of \$350 thousand. Both qualified SBICs provided subordinated debt and equity investments that targeted undercapitalized businesses in underserved areas. These investments have a positive impact on the broader statewide and regional area, which includes the bank's AA. In addition, FNB maintained a prior period SBIC investment with a \$500 thousand commitment.

The purpose of the fund was to invest in debt and/or equity securities of companies to help businesses grow as well as retain and increase job opportunities. FNB completed its funding of \$179 thousand of this existing commitment that matured during the evaluation period.

### **Extent to Which the Bank Provides Community Development Services**

FNB provided an excellent level of CD services. During the evaluation period, FNB provided 27 services to 13 organizations in the AA. Bank employees provided services and served as Board members to various organizations within the bank's AA. Of the qualified CD services, a majority (70 percent) performed by employees were for financial expertise to organizations that serve LMI youth in the AA. The remaining CD services were for employees performing financial education presentations to students in Waller and Hempstead Independent School Districts, both located in the bank's AA. Both school districts have a significant majority of students reported as economically disadvantaged.

### **Responsiveness to Community Development Needs**

The level of lending and CD efforts demonstrates excellent responsiveness to the needs and opportunities in the AA. A community contact indicated the need for banking presence and services in the Waller area. During the review period, bank personnel provided financial literacy classes at schools where a significant majority of the students were reported as economically disadvantaged.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c), in determining a CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance.

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