



PUBLIC DISCLOSURE

February 3, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Alvin
Charter Number 14905

P.O. Box 606
Alvin, TX 77512-0606

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 Alvin (FNBA) has a Satisfactory record of meeting credit needs in its community. The following supports this rating:

- Lending in the assessment area (AA) is reasonable.
- Lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration and meets the standards for satisfactory performance.
- The geographic distribution of loans reflects excellent dispersion.
- The bank did not receive any Community Reinvestment Act (CRA) related complaints during the evaluation period.

SCOPE OF EVALUATION

A full-scope review of FNBA's Community Reinvestment Act (CRA) performance commenced on February 3, 2014. We focused on loan originations from January 1, 2012 to December 31, 2013. We reviewed the primary loan products, which include residential and commercial. For residential loans, we reviewed fifteen owner-occupied loans reported on the Home Mortgage Disclosure Act (HMDA) – Loan Application Register during the evaluation period. For lending to borrowers of different incomes and to businesses of different sizes, we used HMDA data for residential loans and selected a statistically valid sample of 35 commercial loans.

DESCRIPTION OF INSTITUTION

FNBA is one of two community banks owned by Coastal Bancshares, Inc., headquartered in Pearland, Texas. FNBA is headquartered in Alvin, TX and has one branch in Manvel, Texas. As of September 30, 2013, total bank assets were \$113 million with a loan portfolio of \$19 million. The loan portfolio consists of commercial loans, which represent 78 percent of total loans, followed by residential and consumer loans at 14 percent and 6 percent, respectively. The bank received an Outstanding rating at the previous CRA examination dated November 5, 2007. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA.

Please refer to FNBA's CRA Public File for more information about this institution.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank's Assessment Area (AA) includes 18 contiguous census tracts (CT's) in the middle of Brazoria County. There are a total of 51 CT's in Brazoria County. Brazoria County is part of the Houston-Sugar Land-Baytown Metropolitan Statistical Area (MSA). Of the 18 CTs in the AA, three are designated as moderate-income, eight as middle-income, and seven as upper-income.

According to the 2010 U.S. Census, the AA has a total population of 140 thousand, and 9 percent have incomes below the poverty level. Approximately 19 percent of the population receives Social Security benefits, while 11 percent are receiving retirement income. The weighted average median housing cost is \$159 thousand. Of the 47 thousand housing units, approximately 71% are owner-occupied. The weighted average median family income in the AA is \$86,405, and the Department of Housing and Urban Development (HUD) MSA median family income in 2013 was \$66,200.

According to the 2010 U.S. Census, the city of Alvin, TX has approximately 24 thousand residents. The city is 28 miles southeast of Houston, TX in Harris County via State Highway 35. The Economic Development Alliance for Brazoria County reports the largest employer in Brazoria County is The Dow Chemical Company in Freeport with 4,200 employees. Other major employers in the county include The Infinity Group, Alvin Independent School District, Texas Department of Criminal Justice, and Pearland Independent School District. Manvel is adjacent to and west of Alvin, with a population of approximately 5 thousand, according to the 2010 U.S. Census.

Banking competition is intense. Alvin has 27 financial institutions competing for loans and deposits in its market area. Those include a large state chartered credit union, Texas Dow Employees Credit Union, and two other credit unions in the immediate Alvin area. Large international banks such as Wells Fargo, JP Morgan Chase, and Bank of America have 53 percent of the Brazoria County's market share, as reported by the FDIC. We interviewed the Director of a local small business development center who spoke very positively about the centers experience with financial institutions in the area. Due to the growing economic development in the area, the representative of the center identified a need for more funds for start-up businesses. FNBA does extend credit to qualified start-up small business owners.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is less than reasonable and needs to improve. The quarterly LTD ratio averaged 24 percent for the previous 25 quarters since the last CRA examination, and has declined throughout the review period. The ratio is below those of three similarly situated small banks but in line with one bank in the area that belongs to the same holding company as shown in the following table.

Loan to Deposit Comparison - Brazoria County AA		
Bank	Assets (000's)	Average LTD
First National Bank of Alvin Brazoria County, Alvin, TX	\$113,124	23.96%
First State Bank Brazoria County, Clute, TX	\$137,894	56.30%
Heritage Bank Brazoria County, Pearland, TX	\$96,002	66.26%
Pearland State Bank Brazoria County, Pearland, TX	\$164,969	26.91%
Texas Advantage Community Bank Brazoria County, Alvin, TX	\$94,424	86.01%

Source: Quarterly Call Report Information.

FNBA has only 2.30 percent of the Brazoria County deposit market share, according to FDIC market share analysis.

Lending in Assessment Area

Lending within the bank's AA is satisfactory with a majority of loans originated in the AA by dollar volume and the number of loans, as shown in the following table.

Table 1 - Lending in Brazoria County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	9	60.00	6	40.00	15	427	38.47	683	61.53	1,110
Commercial	21	60.00	14	40.00	35	3,349	57.20	2,506	42.80	5,855
Totals	30	60.00	20	40.00	50	3,776	54.21	3,189	45.79	6,965

Source: Loan Sample, U.S. Census Data

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

Overall, lending to borrowers of different incomes and businesses of different sizes reflects reasonable penetration and meets the standards for satisfactory performance. The bank's main primary lending product is commercial loans, comprising 78 percent of total loans. The percentage of loan originations in the sample was compared to the 2013 Business Demographic Data. By number of loans, the bank's penetration to businesses with revenues of \$1 million or less is excellent. However, according to bank management, loan amounts decreased during the evaluation period, which led to lower performance by dollar amount of loans. Performance is reflected in the table below.

Table 2A - Borrower Distribution of Loans to Businesses in Brazoria County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73.47%	2.07%	24.46%	100%
% of Bank Loans in AA by #	73.68%	26.32%	0.00%	100%
% of Bank Loans in AA by \$	24.81%	75.19%	0.00%	100%

Source: Loan Sample, Dunn and Bradstreet Data for 2013

In a review of the total Home Mortgage Disclosure Act (HMDA) reported loans for 2012 and 2013, the bank’s performance of lending to borrowers of difference income levels is reasonable. The bank had reasonable penetration to low-and-moderate income borrowers. Bank management stated that overall loan demand is low and competition for residential loans is high in the area. Performance is reflected in the table below.

Table 2B - Borrower Distribution of Residential Real Estate Loans in Brazoria County 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
Residential	15.55%	11.11%	12.87%	11.11%	16.90%	22.22%	54.68%	55.56%

Source: Home Mortgage Disclosure Act Loan Application Register (HMDA LAR), 2013 U.S. Census Data

Geographic Distribution of Loans

Overall, the geographic distribution of loans reflects excellent dispersion and meets the standards for satisfactory performance. The AA does not have any low-income CT’s and has three moderate-income CT’s. As shown in the table below, the bank had excellent dispersion in both commercial loans and residential real estate loans in moderate-income tracts.

Table 3A - Geographic Distribution of Loans to Businesses in Brazoria County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	0.00%	0.00%	9.32%	57.14%	26.71%	38.10%	63.97%	4.76%

Source: Loan Sample, 2010 U.S. Census Data

Table 3B - Geographic Distribution of Residential Real Estate Loans in Brazoria County 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
Residential	0.00%	0.00%	4.52%	22.22%	31.21%	55.56%	64.27%	22.22%

Source: Source: Home Mortgage Disclosure Act Loan Application Register (HMDA LAR), 2013 U.S. Census Data

Responses to Complaints

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