



PUBLIC DISCLOSURE

February 23, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Anderson
Charter Number 7337

P.O. Box 159
Anderson, TX 77830

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 Anderson (FNB Anderson) has a “**Satisfactory**” record of meeting community credit needs in its assessment area (AA). The following factors support this rating:

- The loan-to-deposit ratio exceeds the average for other similarly sized and situated institutions, and is more than reasonable given the bank’s size, financial condition, and the credit needs of the AA.
- A majority of the bank’s lending is inside the AA by number of loans originated or renewed.
- 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 is reasonable.
- The bank did not receive any Community Reinvestment Act (CRA) related complaints during the evaluation period.

SCOPE OF EVALUATION

FNB Anderson was evaluated under the Small Bank Evaluation Procedures, which included a Lending Test. The Lending Test evaluates the bank’s record of meeting the credit needs of the AA through lending activities. Our evaluation assessed the bank’s lending performance from March 22, 2010 through February 23, 2015.

As of December 31, 2014, the loan portfolio represents 49 percent of total bank assets. The bank offers residential real estate, consumer, business, and farm loans. We identified and reviewed the three major loan products of the bank, consisting of commercial/business, residential real estate and consumer loans. Commercial and residential real estate are the largest products by dollar volume, while consumer loans are the largest product by number.

We selected a statistically valid sample using bank reports of loan originations in the major loan product categories. The sample was used to determine lending in the AA, geographic distribution of originated loans, gross revenue, consumer income, and census tracts (CTs). Our sample totaled 220 loans and consisted of 90 commercial loans, 60 consumer loans, and 70 residential real estate loans.

DESCRIPTION OF INSTITUTION

FNB Anderson is a full service community bank headquartered in Anderson, Texas. The bank has been in operation for more than one hundred years, opening in July 1904. FNB Anderson is 100% owned by First Anderson Bancshares, Inc., a one-bank holding company, which formed in 1984.

The bank serves its local community with two branch locations in Grimes County. The main branch is located at the intersection of Texas State Highway 90 and Farm-to-Market Road 1774 in Anderson, Texas. The second location is located at 9501 State Highway 6 in Navasota, Texas.

FNB Anderson provides lobby and drive-through services Monday through Friday, during reasonable hours. Automated teller machines and night drop boxes are located at both banking offices.

The bank provides a comprehensive line of loan and deposit products and other banking services, including online and mobile banking, check cards, night depository, merchant services, wire transfer, and safe deposit boxes.

As of December 31, 2014, the bank had total assets of \$173 million and a Tier One Capital ratio of 9.33 percent. At the prior CRA Evaluation dated March 22, 2010, the bank received a "Satisfactory" rating. There are no legal or financial factors impeding the bank's ability to help meet the credit needs of its AA.

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

DESCRIPTION OF ASSESSMENT AREA

FNB Anderson's AA is contained within three contiguous counties in Texas. The bank's AA consists of a total of eight CTs in the counties of Grimes, Montgomery, and Walker. The AA includes all six CTs in Grimes County, one CT in Montgomery County, and one CT in Walker County.

Montgomery County is a part of the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA). The CTs located in the Montgomery and Walker counties are contiguous to Grimes County. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies.

Grimes County

Grimes County is located in southeast Texas adjacent to Montgomery and Walker counties. Grimes County is composed of six CTs. There are no in low-income CTs, two moderate-income CTs, two middle-income CTs, one upper-income CT, and one CT without an income designation.

Grimes County's 2013 population estimate was 26,859. Anderson is the county seat. Other cities include Navasota, Bedia and Iola. Agriculture continues to be a major part of the area's economic base. The county consists of mostly rural farmland with the majority of retail businesses and restaurants located in and around Navasota. Major employers include the Anderson-Shiro Consolidated Independent School District (ISD), Grimes County, Navasota ISD, and the Luther Unit of the Texas Department of Criminal Justice (TDCJ) located in Navasota. The median household income in 2013 was \$43,994, and the average unemployment rate in Grimes County for 2014 was 3.8 percent.

Banking competition in the county is moderate. According to the FDIC Market Share Report, as of June 30, 2014, there were six financial institutions in the county. FNB Anderson ranks first in market share, with 37 percent of the deposit base. The five largest competitors in the market are First State Bank of Bedia, Prosperity Bank, Wells Fargo, National Association (NA), Compass Bank, and Citizens Bank.

Grimes County Community Contact

In assessing the bank's performance, a CRA-related community contact was made with a representative of a local economic and development organization in the community. The organization provides small business education and guidance to the Grimes County community. The representative stated that there is a continued need for working capital loans and additional small business loans. This contact indicated that banks in the Grimes County area were meeting the financial needs of the community.

Walker County

Walker County is located in southeast Texas adjacent to Montgomery and Grimes counties. Walker County consists of ten CTs: one low-income CT, two moderate-income CTs, five middle-income CTs, which are designated as distressed, and two upper-income CTs.

Walker County's 2013 population estimate was 68,817. Huntsville is the county seat. Other cities within Walker County include New Waverly and Riverside. The economy of Walker County is considered stable. The economy is mainly driven by educational, healthcare, and public administrative services. TDCJ is headquartered in Huntsville. Walker County is also home to Sam Houston State University. TDCJ is the largest employer in the county with 7 thousand employees; the University employs approximately 2 thousand.

Other major employers include Huntsville ISD and Huntsville Memorial Hospital. The median household income in 2013 was \$37,617, and the average unemployment rate in Walker County for 2014 was 4.2 percent.

Banking competition in Walker County is intense. According to the FDIC Market Share Report, as of June 30, 2014, there were nine institutions in Walker County. The three largest competitors are First National Bank of Huntsville, First Financial Bank, and Bank of America.

Montgomery County AA

Montgomery County is located in southeast Texas adjacent to Walker and Grimes counties. Montgomery County is part of the larger Houston-The Woodland-Sugar Land MSA, and comprises 59 CTs.

Montgomery County's 2013 population estimate was 499,137. Montgomery County encompasses the communities of Conroe, Magnolia, Willis, Cut and Shoot, Splendora, New Caney, Porter, The Woodlands, and Shenandoah. Conroe is the largest city in the county and is the county seat. The economy of Montgomery County is one of the fastest-growing areas in the nation. At one time, the economy was driven by farming, timber and oil. Today trade, services, manufacturing, and local government sectors fuel county employment. Major employers in the county include Anadarko Petroleum Corporation, Hewitt Associates, Memorial Herman, and the Lone Star College System. The median household income for 2013 was \$67,766, and the average unemployment rate for 2014 was 3.5%.

Banking competition in Montgomery County is intense. According to the June 30, 2014 FDIC Market Share report there are 31 institutions in the county. Financial institutions range from large interstate national banks to local community banks. The five largest competitors include Woodforest National Bank, JPMorgan Chase Bank, Amegy Bank, and Wells Fargo.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio exceeds the average for other similarly sized and situated institutions (peer group banks), and is more than reasonable given the bank's performance context. The bank's quarterly LTD ratio since the prior CRA evaluation averaged 65 percent. Forty-six other banks with \$100 million to \$300 million in total assets, with fewer than three branches, headquartered in Texas but not located in an MSA, had an average LTD ratio of 47 percent, collectively, for the same time period. The LTD ratios for the peer group banks ranged from 13 to 85 percent.

Lending in Assessment Area

A majority of the bank's lending is inside the AA by number of loans originated or renewed. By number, 58.18 percent of loans were originated within the bank's AA. By dollar amount, 43.37 percent of loans originated within the AA.

The following table details the bank's lending inside and outside the AA by number and dollar amount:

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	42	60.00	28	40.00	70	3,755	46.41	4,336	53.59	8,092
Commercial	33	36.67	57	63.33	90	2,007	35.83	3,594	64.17	5,600
Consumer	53	88.33	7	11.67	60	343	88.96	43	11.04	386
Totals	128	58.18	92	41.82	220	6,105	43.37	7,973	56.63	14,078

Source: loan sample.

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

The bank's performance under this criterion is reasonable in light of the bank's performance context. While residential lending to low-income and moderate-income borrowers is less than reasonable, consumer lending to low-income and moderate-income borrowers is more than reasonable. More weight was placed on consumer lending as consumer loans represent 70 percent of the number of the bank's total loans.

Residential Loans

Penetration of residential real estate loans in 2013 to low-income borrowers of 9.09 percent is significantly less than the AA demographics of 19.06 percent. Penetration of 13.64 percent in 2013 to moderate-income borrowers is below but near to the AA demographics.

There was no penetration of residential real estate loans in 2014 to low-income borrowers, compared to 18.90 percent for the AA demographics. Penetration of 10 percent in 2014 to moderate-income borrowers is below but near to the AA demographics of 17.07 percent. A possible explanation for the poor penetration of low-income borrowers is the difficulty in home lending to borrowers whose income is below \$27 thousand per year. The bank's performance is shown in the following tables:

Table 2a - Borrower Distribution of Residential Real Estate Loans in AA in 2013								
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	19.06	9.09	17.21	13.64	17.63	27.27	46.10	40.91

Source: loan sample; U.S. Census data. Note: income information unavailable for 9.09% of borrowers.

Table 2b - Borrower Distribution of Residential Real Estate Loans in AA in 2014								
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	18.90	0.00	17.07	10.00	17.51	5.00	46.52	85.00

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

Consumer Loans

Penetration of consumer loans in 2013 to low-income borrowers of 30.77 percent significantly exceeds the AA demographics of 21.42 percent. Penetration of consumer loans of 19.23 percent in 2013 to moderate-income borrowers exceeds the AA demographics of 15.90 percent.

Penetration of consumer loans in 2014 to low-income borrowers of 22.22 percent exceeds the AA demographics of 20.53 percent. Penetration of 11.11 percent in 2014 to moderate-income borrowers is below but near to the AA demographics of 15.53 percent. The bank's performance is shown in the following tables:

Table 2c - Borrower Distribution of Consumer Loans in AA in 2013								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	21.42	30.77	15.90	19.23	16.08	3.85	46.60	19.23

Source: loan sample; U.S. Census data. Note: income information unavailable for 26.92% of borrowers.

Table 2d - Borrower Distribution of Consumer Loans in AA in 2014								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer	20.53	22.22	15.53	11.11	16.02	18.52	47.92	48.15

Source: loan sample; U.S. Census data. Note: income information unavailable for 48.15% of borrowers.

Business Loans

There were an insufficient number of business loans in the AA with gross annual revenue information in 2013 or 2014 for a meaningful analysis of lending to businesses of different sizes.

Geographic Distribution of Loans

The bank's performance under this category is more than reasonable in light of the bank's performance context. Geographic distribution of residential and consumer loans in moderate-income CTs in the AA significantly exceed the AA characteristics. Geographic distribution of business loans reflects reasonable dispersion in moderate-income CTs in the bank's AA. There are no low-income CTs in the bank's AA.

Residential Loans

The geographic distribution of residential real estate loans in 2013 of 42.11 percent significantly exceeds the AA demographics of 21.82 percent. The geographic distribution of residential real estate loans in 2014 of 20.00 percent is very near the AA demographics of 21.82 percent. The bank’s performance is shown in the following tables:

Table 3a - Geographic Distribution of Residential Real Estate Loans in AA in 2013								
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	21.82	42.11	34.58	31.58	43.20	26.32

Source: loan sample; U.S. Census data. Note: Income information unavailable for .74% of census tracts.

Table 3b - Geographic Distribution of Residential Real Estate Loans in AA in 2014								
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	21.82	20.00	34.58	55.00	43.20	25.00

Source: loan sample; U.S. Census data. Note: Income information unavailable for .40% of census tracts.

Consumer Loans

The geographic distribution of consumer loans in 2013 of 33.33 percent significantly exceeds the AA demographics of 22.54 percent. The geographic distribution of consumer loans in 2014 of 37.04 percent significantly exceeds the AA demographics of 22.54 percent. The bank’s performance is shown in the following tables:

Table 3c - Geographic Distribution of Consumer Loans in AA in 2013								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer	0.00	0.00	22.54	33.33	35.88	20.83	40.84	45.84

Source: loan sample; U.S. Census data. Note: income information unavailable for .74% of census tracts.

Table 3d - Geographic Distribution of Consumer Loans in AA in 2014								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer	0.00	0.00	22.54	37.04	35.88	29.63	40.84	33.33

Source: loan sample; U.S. Census data. Note: income information unavailable for .74% of census tracts.

Business Loans

The geographic distribution of business loans in 2013 of 20.83 percent is very near the AA demographics of 20.95 percent. There were an insufficient number of business loans in 2014 for a meaningful analysis of geographic distribution. The bank’s performance is shown in the following table:

Table 3e - Geographic Distribution of Loans to Businesses in AA in 2013								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	0.00	0.00	20.95	20.83	38.19	50.00	40.77	29.17

Source: loan sample; U.S. Census data. Note: income information unavailable for .09% of census tracts.

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.