



PUBLIC DISCLOSURE

April 3, 2019

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 18609

729 W. 7th Avenue
Spearman, TX 79081

Office of the Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289, Suite 108, Lubbock, TX 79424

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, and should not 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.

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Overall CRA Rating

The Lending Test is rated: Satisfactory.

First National Bank's (FNB) CRA performance is satisfactory. We based our conclusion on FNB's lending practices, as follows:

- FNB's quarterly average net loan-to-deposit (LTD) ratio of 77.5 percent is more than reasonable given the bank's size, financial condition, local competition, and assessment area (AA) credit needs.
- FNB originated a majority of its loans by number (84 percent) and dollar volume (82 percent) to farms and individuals located within the AA.
- FNB's loan portfolio reflects an overall reasonable penetration among farms of different sizes and to borrowers of various income levels.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A metropolitan division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

First National Bank (FNB) is a community bank headquartered in Spearman, Texas, located in the northern Texas panhandle. FNB is an intrastate bank with three branches located in Spearman (main), Dumas, and Perryton, Texas. The bank is wholly owned by Spearman Bancshares, a one-bank holding company. As of December 31, 2018, FNB had total assets of \$226 million, with net loans and leases comprising 67 percent of total assets. The following table depicts FNB's loan portfolio composition.

Loan Originations in 2016, 2017 and 2018 by Original Amount				
Loan Category	\$ of Loans (000s)	% of \$	# of Loans	% of #
Agricultural and Farmland	\$188,385	54%	474	17%
Commercial and Commercial Real Estate	\$142,662	41%	585	22%
Consumer	\$10,852	3%	1,609	59%
Residential Real Estate (1-4 Family)	\$6,963	2%	57	2%
TOTAL	\$348,862	100%	2,725	100%

Source: Bank-Reported Origination Spreadsheets

The bank offers a full range of traditional commercial and consumer banking products and related financial services. Bank lobby and drive-through services are provided Monday through Friday. The bank provides 24-hour access to banking services through telebanking and its website at www.fnbspearman.com. Internet banking services include account balance inquiries, funds transfers, and bill pay.

Management and the Board's primary business strategy is to serve commercial, agricultural, and retail customers in Hansford, Moore, and Ochiltree counties. FNB was rated "Satisfactory" at its previous CRA evaluation dated November 17, 2014. FNB has no legal or financial circumstances that impede its ability to help meet the credit needs in its AA.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The CRA evaluation period is January 1, 2016 through December 31, 2018. This Performance Evaluation assesses FNB's record of meeting the credit needs of the community in which it operates. We evaluated FNB using small bank performance criteria, including loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to farms of different sizes, geographic distribution, and responses to CRA-related complaints.

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 were originated at the highest percentage by number or dollar amount of loans. Therefore, we sampled 26 agricultural loans and 30 consumer loans originated between January 1,

2016 and December 31, 2016. We also sampled 28 agricultural loans and 30 consumer loans originated between January 1, 2017 and December 31, 2018. Due to census changes in 2017, we selected samples for these primary products using different year combinations: one for 2016, and one for 2017-2018.

Data Integrity

We obtained financial and geographic information directly from the bank's loan files and, when not available in the loan file, from bank management.

Selection of Areas for Full-Scope Review

FNB has one assessment area which will receive a full-scope review. The Spearman AA includes Ochilree, Hansford, and Moore Counties in their entirety.

Ratings

The bank's overall rating is based on the only AA, which received a full-scope review.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c), in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

FNB's performance under the Lending Test is Satisfactory.

LENDING TEST

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, local competition, and AA credit needs. This determination is based on the bank's average quarterly net LTD ratio for 18 quarters from September 2014 through December 2018. During the evaluation period, FNB's average quarterly net LTD ratio was 77.48 percent and ranged from a low of 65.47 percent to a high of 89.52 percent. The quarterly average LTD ratio for similarly situated banks (comparable asset size and contiguous to the AA) averaged 54 percent and are listed below. Please note that no ranking is intended or implied.

Institution	Total Assets (\$000s) as of 12/31/18	Average Quarterly Net LTD Ratio
First National Bank	226,100	77.48
First State Bank	147,494	62.37
The Perryton National Bank	172,423	34.09
Interstate Bank, SSB	197,402	65.53

Source: Institution Reports of Condition from September 2014 to December 2018.

Lending in Assessment Area

A majority of FNB's loans, 84 percent by number and 82 percent by dollar amount, were extended to borrowers within the bank's AA. We sampled 54 agricultural loans and 60 consumer loans originated during 2016, 2017, and 2018. Results by loan category are illustrated in the following table.

Lending in Spearman AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	41	76	13	24	54	10,829	81	2,608	19	13,437
Consumer	55	92	5	8	60	348	90	38	10	386
Totals	96	84	18	16	114	11,322	82	2,646	18	13,823

Source: Loan sample.

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

FNB's borrower distribution for the AA reflects an overall reasonable penetration. Based on the sample of 46 commercial and 54 consumer loans originated within the AA from January 1, 2016 through December 31, 2018, the distribution of loans reflects a reasonable penetration among farms of different sizes, and an excellent penetration among borrowers of different income levels.

Agricultural Loans

The distribution of loans to farms reflects reasonable penetration among farms of different sizes. The percent of FNB farm loans originated in 2017-2018 and 2016 to farms with revenues of less than or equal to \$1 million is 90 percent and 86 percent, respectively. This is near the demographic of 91 percent. The following tables show the results of our samples of agricultural loans.

Borrower Distribution of Loans to Farms in Spearman AA				2017-2018
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	90.56	5.24	4.20	100%
% of Bank Loans in AA by #	90.00	10.00	0.00	100%
% of Bank Loans in AA by \$	74.41	25.59	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Borrower Distribution of Loans to Farms in Spearman AA				2016
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	91.40	5.16	3.44	100%
% of Bank Loans in AA by #	85.71	14.29	0.00	100%
% of Bank Loans in AA by \$	76.75	23.25	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Consumer Loans

The distribution of consumer loans reflects an excellent penetration to borrowers of different income levels. Consumer loans originated in 2017-2018 to low-income (36 percent) and moderate-income (25 percent) households significantly exceed the demographics of 16 percent and 15 percent, respectively. Consumer loans originated in 2016 to low-income (22 percent) and moderate-income (37 percent) households significantly exceed the demographics of 17 percent for each category. The following tables show the results of our samples of consumer loans.

Borrower Distribution of Consumer Loans in Spearman AA								2017 - 2018
	Low		Moderate		Middle		Upper	
Borrower Income Level	% 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	15.9	35.7	15.0	25.0	19.8	21.4	49.3	17.9

Source: 2017-18 Consumer Loan Sample; 2015 U.S. Census data.

Borrower Distribution of Consumer Loans in Spearman AA								2016
	Low		Moderate		Middle		Upper	
Borrower Income Level	% 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	16.8	22.2	16.6	37.0	16.6	22.2	50.0	18.5

Source: 2016 Consumer Loan Sample; 2010 U.S. Census data

Geographic Distribution of Loans

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

Responses to Complaints

Neither the OCC nor FNB has received any CRA-related complaints during this evaluation period. This has a neutral effect on the bank's CRA performance.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: 1/1/2016 to 12/31/2018	
Financial Institution	Products Reviewed	
First National Bank (FNB) Spearman, Texas	Agricultural Loans, Consumer Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
FNB Spearman AA	Full-Scope	Ochiltree, Hansford, and Moore Counties

Appendix B: Community Profiles for Full-Scope Areas

Spearman Assessment Area

Demographic Information for Full-Scope Area: Spearman AA 2017-2018						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	9	0.0	0.0	77.8	22.2	0.0
Population by Geography	38,482	0.0	0.0	82.3	17.7	0.0
Owner-Occupied Housing by Geography	8,832	0.0	0.0	79.0	21.0	0.0
Businesses by Geography	2,081	0.0	0.0	78.8	21.2	0.0
Farms by Geography	286	0.0	0.0	74.1	25.9	0.0
Family Distribution by Income Level	9,763	16.5	19.1	21.7	42.6	0.0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	3,482	0.0	0.0	85.1	14.9	0.0
Median Family Income (MFI)	= \$52,076	Median Housing Value			= \$90,918	
HUD Adjusted MFI for 2015	= \$56,500	Unemployment Rate			= 2.4%	
Households Below the Poverty Level	= 13.7%					

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2015 U.S. Census, and 2018 HUD updated MFI.

Demographic Information for Full-Scope Area: Spearman AA 2016						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	9	0.0	0.0	55.6	44.4	0.0
Population by Geography	37,740	0.0	0.0	72.7	27.3	0.0
Owner-Occupied Housing by Geography	8,417	0.0	0.0	67.2	32.8	0.0
Businesses by Geography	2,250	0.0	0.0	71.4	28.6	0.0
Farms by Geography	349	0.0	0.0	45.3	54.7	0.0
Family Distribution by Income Level	9,047	16.2	16.8	20.4	46.6	0.0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	3,482	0.0	0.0	85.1	14.9	0.0
Median Family Income (MFI)	= \$47,817	Median Housing Value			= \$90,918	
HUD Adjusted MFI for 2016	= \$56,500	Unemployment Rate			= 2.4-2.7%	
Households Below the Poverty Level	= 15.33%					

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census, and 2016 HUD updated MFI.

FNB has designated Hansford, Moore, and Ochiltree Counties as its AA. These contiguous counties are located in the northern panhandle of Texas. The AA meets the legal requirements as it consists of whole geographies and does not arbitrarily exclude any low- or moderate-income census tracts.

Economic conditions are stable. The AA remains dependent on agricultural activity, as well as oil and gas production. Drought-like conditions have adversely affected growing crops and cattle production in the past; however, local farmers have benefitted from recent rainfall and a more positive agricultural environment. In addition, the stabilization of oil and gas prices has contributed to increases in consumer income through increased employment opportunities. Wind energy production is also prevalent and helps support the economic environment during downturns. Unemployment remains lower than state and national levels, ranging from 2.4 to 2.7 percent within the AA. Sales tax receipts in the Perryton area are up, after some retail closures in prior years.

Competition within the local market is strong as there are several banks as well as branches of local, regional, and national banks operating in and around the AA. FNB has a 14.5 percent deposit market share in the AA, ranking a close third among these banks. FirstBank Southwest has the highest market share of deposits at 16.8 percent, followed by Happy State Bank at 14.8 percent.

An individual in the community was interviewed for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining their performance. The local economy has been stable and area financial institutions have proactively contributed to the credit needs of the community, including the willingness to provide various types of credit.