



PUBLIC DISCLOSURE

July 10, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Tom Bean
Charter Number 11019

109 Britton Street
Tom Bean, Texas 75489

Office of the Comptroller of the Currency
Dallas Field Office
225 E. John Carpenter Freeway, Suite 900
Irving, Texas 75062

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.

Table of Contents

OVERALL CRA RATING	1
DEFINITIONS AND COMMON ABBREVIATIONS	2
DESCRIPTION OF INSTITUTION	6
SCOPE OF THE EVALUATION.....	7
DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW	8
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA.....	9
STATE OF TEXAS.....	10
STATE OF ARKANSAS.....	19
APPENDIX A: SCOPE OF EXAMINATION.....	APPENDIX A-1
APPENDIX B: SUMMARY OF STATE RATINGS.....	APPENDIX B-1
APPENDIX C: COMMUNITY PROFILES FOR FULL-SCOPE AREAS....	APPENDIX C-1

INSTITUTION'S CRA RATING: "Satisfactory"

The Lending Test is rated: Satisfactory.

The bank's overall rating blends the individual state ratings.

The significant factors supporting this rating include the following:

- FNB's quarterly average net loan-to-deposit (LTD) ratio is **reasonable**, and meets the standard for satisfactory performance.
- FNB originated a **majority** of loans sampled inside the assessment area (AA), and meets the standard for satisfactory performance.
- The distribution of loans reflects **reasonable penetration** of loan originations among borrowers of different income levels and businesses of different sizes, and meets the standard for satisfactory performance.
- The geographic distribution of loans reflects a **reasonable dispersion** of loan originations throughout the AA, and meets the standard for satisfactory performance.
- FNB's responsiveness to CRA complaints is not applicable as there have been no complaints filed against the bank during the review period.

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 usually have between 2,500 and 8,000 persons, and 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 ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development 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 Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county 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) and the Thrift Financial Reporting (TFR) 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 of Tom Bean (FNB or bank) is a full service \$90 million multistate community bank organized in July 1906 by C. C. Walsh and currently is principally owned by the Townes family. In 1934, the bank was nationally chartered in the city of Tom Bean, Grayson County, Texas. The city of Tom Bean is located 15 miles southeast of Sherman, Texas and 65 miles north of Dallas. FNB currently has three branches in addition to the main bank. The first branch was located in Clarksville, Texas in Red River County, and opened in April 1998. Since the previous CRA examination, the bank has opened two out-of-state branches. FNB opened a branch in Lewisville, Lafayette County, Arkansas on June 23, 2011. More recently, FNB opened a third branch, the second outside the state of Texas, on April 17, 2017 in Hope, Hempstead County, Arkansas.

As a multistate community bank, FNB is evaluated based on two rated areas, Texas and Arkansas. The Texas rating area consists of two assessment areas (AA), the Sherman-Denison Metropolitan Statistical Area (MSA) that contains Grayson County, and the Non-MSA that contains Red River County. The Arkansas rated area consists of the Non-MSA AA, comprising both Lafayette and Hempstead Counties. Because the two counties are adjacent to one another and are not part of an MSA, they are combined into one AA.

Branch hours and services do not vary in a way that inconveniences portions of its AAs, particularly low- and moderate income individuals and geographies. The banking locations in both rating areas offer drive-thru banking services, and all but the branch in Hope, Arkansas currently offer 24/7 customer access to an Automated Teller Machine (ATM) onsite. The physical location and census tract income of these banking facilities are as follows:

- 109 S. Britton, Tom Bean, Texas (CT 18.02 middle-income);
- 2203 West Main St. Clarksville, Texas (CT 9505 middle-income);
- 120 E. First Street, Lewisville, Arkansas (CT 4701 middle-income);
- 301 N. Hervey Street, Hope, Arkansas (CT 4805 moderate-income).

FNB offers a full-range of loan and deposit products and internet banking to individuals and businesses. Alternative banking services include debit and credit cards, wire transfers, money orders, and online banking. Strategic plans indicate long term technology goals for the bank include mobile remote deposit capture and merchant capture capabilities. The bank does not engage in a significant level of advertising or marketing. The CRA Public File can provide more detail of the services available.

The bank's primary business focus is to serve consumer, commercial, and agricultural customers in all AAs. FNB does not sell home mortgage loans into the secondary market, and currently does not originate loans guaranteed by the Federal Housing Administration or United States Department of Veterans Affairs.

There is strong competition in both rating areas from larger state and federal financial institutions. According to the FDIC Deposit Market Share Report, as of June 30, 2016, there were 24 depository institutions operating 65 branches in the rating areas combined. FNB ranked tenth with a deposit market share of 2.06 percent.

As of June 30, 2017, the bank's overall loans totaled \$66 million and represented 70 percent of FNB's \$94 million in total assets. Tier 1 leverage capital was 8.03 percent. Real estate, commercial and consumer loans totaled \$32.8 million, \$20.8 million, and \$8.9 million, representing 49 percent, 31 percent and 14 percent of assets, respectively. The bank's lending activities vary by assessment area though consumer loans represent the largest percentage of loan activity in both rating areas.

For this review period, no legal impediments or financial constraints were identified that would have hindered the bank from serving the credit needs of its customers, and the bank appeared capable of meeting assessment area credit needs based on its available resources and financial products. FNB received a Satisfactory rating in its previous CRA Performance Evaluation dated June 20, 2011.

Scope of the Evaluation

Evaluation Period/Products Evaluated

This Performance Evaluation (PE) assesses the Community Reinvestment Act (CRA) performance of FNB under the Small Bank performance criteria. We utilized the Lending Test to evaluate the bank's record of meeting the credit needs of its AA. We performed a full-scope review of CRA activities. This PE starts from the date of the bank's previous CRA examination covering the period from June 20, 2011 to July 10, 2017.

The bank is required to report data in accordance with the Home Mortgage Disclosure Act (HMDA). Our review focused on home mortgage loans as reported for the HMDA for the period beginning January 1, 2014 through December 31, 2016. Consumer loans represented the bank's highest loan activity, thus we sampled 20 loans originated within each AA from the period January 1, 2014 through June 30, 2017. No apparent anomalies were identified, and the bank had no affiliate activities to consider.

Data Integrity

A data integrity review of the loans reported for the HMDA was conducted prior to this evaluation. We sampled 20 transactions from each of the last three calendar years. This sample of 20 transactions represented coverage of 51.28 percent of all HMDA reportable transactions in 2014, 40.82 percent in 2015, and 35.09 percent in 2016. A nominal percentage of errors in key fields were identified in our review of 2014 HMDA data, but no errors were identified in our review of 2015 and 2016 HMDA data. Our testing indicated no substantive inaccuracies in the data. Therefore, we concluded that the home mortgage loan data could be relied upon for this evaluation.

Selection of Areas for Full-Scope Review

Full-scope reviews were conducted of the Texas Sherman-Denison MSA AA and Non-MSA AA and the Arkansas Non-MSA AA. Refer to the “Scope” section under each state rating section for details regarding how the areas were selected.

Ratings

The bank’s overall rating is based on a blend of state ratings. The state ratings are based on those areas that received full-scope reviews. Refer to the “Scope” section under each state rating section for details regarding how the areas were weighted in arriving at the respective rating. The state of Texas carried the greatest weight in our conclusions because it represented the bank’s most significant market in terms of deposit concentrations and loans. As of June 30, 2017, Texas banks represented 50 percent of the branch network and accounted for 84 percent of the bank’s overall deposits and loans.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank’s or federal savings association’s (collectively, bank) 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.

The OCC will consider any evidence of discriminatory or other illegal credit practices relative to this institution that other regulators may provide to the OCC before the end of the institution’s next performance evaluation in that subsequent evaluation, even if the information provided concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Criteria

FNB's CRA performance under the Lending Test is rated satisfactory. The bank's loan-to-deposits ratio is **reasonable** considering the bank's performance context, including the bank's resources and capacity to lend, demographic and economic factors, and the lending opportunities available in the AAs. FNB also originated a **majority** of loans inside the AAs. Borrower's profile analysis reflected reasonable penetration among individuals of different income levels and a reasonable dispersion of lending to geographies of different income levels when considering performance context factors. Greater weight was given to the distribution of consumer loans than distribution of home mortgage loans due to it being a primary loan product in terms of volume activity, business focus, and credit needs in all AAs. The state of Texas bank performance carries a greater weight because it represents the bank's most significant market in terms of deposit concentrations and loans. As of June 30, 2017, Texas banks represented 50 percent of the bank's overall branch network, and accounted for 83.9 percent of total deposits and 84.4 percent of total loans. The OCC has received no written CRA complaints, this criterion is not applicable to Lending Test results.

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio is **reasonable** given the bank's size, financial condition, and AA credit needs, and thus meets the standards of satisfactory performance for this criterion. This determination is based on a quarterly average LTD ratio of 61.57 percent over a 24 quarter period since the last PE. The bank's LTD ratio has trended higher from a low of 51.64 percent in March 2012 to a high of 74.14 percent in March 2017. This ratio is comparable to banks of similar size and offering similar products. Management considers Texas Star Bank as its closest competitor, which recorded a slightly higher average LTD ratio of 77.77 percent but is considerably larger in size.

Lending in Assessment Area

FNB's performance of lending inside its AA is **reasonable** with a **majority** of loans extended within its AA. Lending inside the AA is analyzed bank-wide and not by individual AAs. The majority of home mortgage and consumer lending originated during the evaluation period was inside the AAs, and thus meets the standards of satisfactory performance for this criterion. As depicted in Table 1 below, a total of 132 HMDA reported home loans were originated in the evaluation period. A total of 101 or 76.5 percent in number and \$11.2 million or 68.0 percent in dollars was originated in the AAs. Of a total 2,054 consumer loans in number and \$20.4 million in dollars originated during the period from January 1, 2014 through June 30, 2017, we sampled an initial 60 loans (20 from each AA) for evaluating lending in the AA. Based on sampled consumer loans, 66.7 percent in number and 68.7 percent in dollars was originated inside the AAs. Combining residential and consumer loans, 73.4 percent in number and 68.1 percent in dollars was originated inside the AAs.

Table 1 - Lending in the AAs (Bank Wide)										
Loan Type	Number of Loans					Dollars of Loans (\$ in 000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Mortgage	101	76.5	31	23.5	132	11,247	68.0	5,284	32.0	16,531
Consumer	40	66.7	20	33.3	60	386	68.7	176	31.3	562
Totals	141	73.4	51	26.6	192	11,633	68.1	5460	31.9	17,093

Source: HMDA reported data; Consumer Loan Sample

State Rating

State of Texas

CRA rating for the State of Texas: Satisfactory

The Lending Test is rated: Satisfactory

The major factors that support these ratings include:

- An overall reasonable borrower income distribution. Excellent penetration in consumer loans was noted in both Texas AAs. Poor penetration in borrower income distribution for home mortgage loans is reasonable when considering performance context in the AA.
- An overall reasonable geographic distribution. Excellent dispersion of home mortgage loans in the Sherman-Denison MSA while no meaningful analysis was possible for the Non-MSA AA due to the absence of LMI geographies although consideration is given to the fact that all four of the bank's middle-income census tracts in that AA are identified as distressed middle-income geographies due to high poverty and population loss. The poor penetration of consumer loans is reasonable when considering the performance context in the AA.

Description of Institution's Operations in Texas

FNB has two assessment areas within the state of Texas, the Sherman-Denison MSA AA and the Non-MSA AA. The Sherman-Denison MSA AA is an area consisting of Grayson County and the city of Tom Bean, where the bank is headquartered. According to 2010 U.S. Census data, Tom Bean has a population of only 1,045. Primary employers include the Independent School District, Ellis Tool & Machine, and the city government office. Tom Bean is a "bedroom community" and many residents commute 15 to 25 miles into Sherman and Denison for work. Major employers in the Sherman-Denison MSA AA include Tyson Foods, Texoma Health Systems, Texas Instruments, Raytheon, Cigna, and the Wilson Jones Health Systems. The largest labor sectors are services, education, healthcare, and government.

The Non-MSA AA is an area consisting of Red River County where the bank opened its first branch in the City of Clarksville in April 1998. The Non-MSA economy has suffered two decades of industry loss and is steadily improving. According to the 2010 U.S. Census, population in the Non-MSA of 12,860 represents a 10 percent decline from the 2000 U.S. Census of 14,314. Residents commute to Paris, Texarkana, and Bonham for work. The most common industries include food processing, forestry, agriculture, manufacturing, construction, and retail services. Major employers include Magnolia Brush, Northeast Texas Pallet, Pacific Columns, Martin Sprocket & Gear, K&B Steel, the independent school districts and county government.

Sherman-Denison MSA AA

The AA contains 26 whole census tracts (CTs), eight moderate-income, 15 middle-income, and three upper-income. There are no low-income geographies in the AA. The main bank is located in a primarily rural upper-income CT (0018.02) that borders two middle-income CTs and one other upper-income CT. The closest moderate-income CT (0015.00) to the main bank in Tom Bean is 10 to 12 miles northwest in Sherman, Texas. There are two other moderate-income CTs farther north in Sherman, and five 15 miles north of Sherman in the city of Denison. According to 2010 Census data, the AA contains 31,768 families and 45,545 households. Close to 13 percent of households live below the poverty level, and 41.9 percent of those households reside in the moderate-income geographies. The value of average median housing is \$101,895 and the average median family income is \$58,173.

FNB provides a full range of loan and deposit products in both AAs, but does not offer a traditional 30-year fixed-rate mortgage loan product or sell loans into the secondary market. The bank offers shorter term (3-5 year) variable-rate mortgage loans that require a 20 percent down payment or equity position. Low- and moderate-income individuals have difficulty qualifying for mortgages under conventional underwriting standards, thus lending opportunities are limited.

As of June 30, 2017, the Sherman-Denison MSA AA is the bank's most significant AA. Deposits attributed to the Sherman-Denison MSA AA totaled \$46 million and represented 64 percent of the \$72 million in Texas bank deposits and 54 percent of the overall \$86 million in bank deposits. Loans attributed to the MSA AA totaled \$40 million and representing 71 percent of Texas bank loans totaling \$56 million and almost 60 percent of the \$66 million in total bank loans.

The bank operates in a very competitive banking environment, and faces increasing competition from branches of large national and state-chartered financial institutions that are closer in proximity to LMI areas and offer special financing programs targeted to LMI borrowers. According to the FDIC Market Share Report, as of June 30, 2016, there are 13 banks operating 43 offices within the MSA AA. The American Bank of Texas and Landmark Bank, NA lead in deposit market share. FNB ranked eighth with deposits totaling \$30 million, a market share of less than 2 percent. Additionally, there are two credit unions operating in the area within 15 miles of the bank - City Credit Union in Sherman and Fannin Federal Credit Union in Bonham.

We contacted a local community organization in the AA to get a better understanding of the general community credit and development needs, and discuss local economic conditions. The contact felt that local financial institutions are actively involved in the community. Credit and development opportunities exist for the expansion of businesses, and more flexible credit underwriting of working capital and small business loans is needed. Additionally, the contact stated that low-income housing and reasonable rental properties are persistent needs in the community.

Texas Non-MSA AA

The Non-MSA AA consists of four middle-income CTs. There are no low- and moderate-income (LMI) geographies in the AA. All four middle-income CTs were included on the FFIEC list of "Distressed Middle Income Nonmetropolitan Tracts" for the review period due to high poverty and population losses.

According to 2010 U.S. Census data, the area consists of 3,696 families, 5,108 households, and 6,863 housing units. More than 25 percent of housing units (1,755) are vacant considering the population losses over the past few years and above average poverty at 17 percent. Additionally, close to 20 percent of households are in retirement and 39 percent draw social security. Average median housing for the area is \$60,472 and the average median family income is \$43,756.

A full range of loan and deposit products are offered in the AA with the exception of a traditional 30-year fixed-rate mortgage loan product as indicated earlier. There have been no branch openings or closings in the AA since the previous CRA examination. As of June 30, 2017, the Texas Non-MSA AA accounts for 36 percent of Texas bank deposits totaling \$72 million, and 26 percent of overall deposits totaling \$86 million. The Texas Non-MSA AA's \$16 million in loans accounted for 29 percent of \$56 million in Texas bank loans and 25 percent of the bank's \$66 million in total loans.

There is significant competition in the area from other state and national banks. According to the FDIC Market Share Report, as of June 30, 2016, there are five banks operating in six offices within the AA. State Bank of De Kalb and Guaranty Bank & Trust lead all other banks with a 60 percent market share. FNB ranked third with deposits totaling \$24.5 million and 15.5 percent market share. There are also three credit unions operating in the area that compete for loans and deposits (North East Teachers Federal Credit Union, Red River Federal Credit Union, and Texas Farm Credit).

We made contact with one community leader in the AA to get a better understanding of the general community credit and development needs, and discuss local economic conditions. The contact stated that, for the most part, local financial institutions are doing a good job and are very community oriented. Credit and development opportunities exist for the expansion of small businesses. They also indicated that more flexible credit underwriting of working capital and small business loans is needed. Additionally, the contact stated that low denomination consumer loans for weatherization and maintenance projects in low- and moderate-income communities are needed.

Scope of Evaluation in Texas

For the state of Texas, we completed a full-scope review of the Texas Sherman-Denison MSA AA and Texas Non-MSA AA. No limited-scope reviews were conducted. The state rating is based on performance test results of the MSA and Non-MSA AAs. Please refer to the table in Appendix A for more information.

The Texas Sherman-Denison MSA AA was given more weight in arriving at the overall conclusion because it represents the highest percentage of Texas bank loans and deposits for Texas rated banks. The Sherman-Denison MSA AA accounted for 63.9 percent of Texas bank deposits and 70.8 percent of Texas bank loans.

Conclusions with Respect to Performance Tests in Texas

The Lending Test analysis that follows evaluates FNB's Texas lending activity as described earlier in the scope section. The factors considered include (1) Lending to Borrowers of Different Income Levels; (2) Geographic Distribution of Loans; and (3) Response to CRA Complaints.

LENDING TEST

Overall, FNB's performance under the Lending Test for Texas is **Satisfactory**. We focused our review on HMDA reported loans for the period January 1, 2014 through December 31, 2016, and 20 sampled consumer loans originated inside the AAs for the period January 1, 2014 through June 30, 2017. We considered bank size and branch locations, lending capacity and opportunities, market competition, demographic and economic data, and the bank's strategic plan.

FNB's borrower distribution reflects **reasonable penetration** of lending to borrowers of different income levels when considering performance context, and thus meets the standard of satisfactory performance. More weight was placed on the Texas Sherman-Denison MSA AA as it represents the greater percentage of loan and deposit activity.

FNB's geographic distribution of lending to LMI geographies reflects **reasonable dispersion** when considering performance context, and thus meets the standard of satisfactory performance. More weight was given to the Texas Sherman-Denison MSA AA. Though the Non-MSA AA has no low- and moderate-income geographies, all four middle-income geographies in the AA are designated distressed due to high poverty and population loss.

There were no CRA-related complaints during the evaluation period to evaluate the bank's responsiveness, thus this criterion is not applicable to lending performance.

Refer to Table 1 Lending Volume in the state of Texas section of Appendix C for the facts and data used to evaluate the bank's lending activity.

Lending to Borrowers of Different Incomes

Texas Sherman-Denison MSA AA

For home mortgage loans and consumer loans, we compared the percentage of loans originated to low-, moderate-, middle-, and upper-income borrowers to the percentage of AA families or households that fall within each of those income levels using FFIEC median family income levels.

The borrower distribution of loans in the Texas Sherman-Denison MSA to borrowers of different income levels reflects **reasonable penetration** and generally meets the standards of satisfactory performance when considering performance context in the AAs. More weight was given to consumer loans because they represent a larger percentage of lending activity in the AA.

As shown in Table 2 below, the distribution of home mortgage loans to LMI borrowers reflects **poor** penetration. The percentage of home loans by number (5.8 percent) originated to moderate-income borrowers is lower than the percentage of AA moderate-income households (18.1 percent), and the percentage of home loans by number (1.9 percent) originated to low-income borrowers is lower than the percentage of AA low-income households (20.8 percent). Performance is **reasonable** when considering performance context in the AA. The bank does not offer a traditional 30 year fixed-rate mortgage loan product, only shorter-term adjustable-rate loans that typically require significant down payments. As such, conventional underwriting standards consistent with safe and sound lending, makes home loan qualifying difficult for LMI individuals. Other performance context factors include the 13 percent poverty rate, the bank's small market share and high level of lender competition in the AA, in addition to the high percentage of the households in retirement (17.6 percent) or living on social security (33 percent).

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Mortgage	20.8	1.9	18.1	5.8	21.3	13.4	39.8	53.9

Source: Data reported under HMDA; 2010 U.S. Census data.

As noted in the Scope of Examination section, we considered a sample of 20 consumer loans FNB originated inside the Sherman-Denison MSA from January 1, 2014 through June 30, 2017 in our analysis. As illustrated in Table 2B, the distribution of consumer loans to LMI borrowers is **reasonable**, and thus meets the standard for satisfactory performance. While the percentage of consumer loans by number (10 percent) originated to moderate-income borrowers lags the percentage of AA moderate-income households (16.5 percent), the percentage of consumer loans by number (40 percent) originated to low-income borrowers significantly exceeds the percentage of AA low-income households (23.2 percent).

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	23.2	40.0	16.5	10.0	18.6	25.0	41.7	25.0

Source: Consumer loan sample; 2010 U.S. Census data.

Texas Non-MSA AA

The distribution of loans in the Texas Non-MSA to borrowers of different income levels is **reasonable and** generally meets the standards of satisfactory performance when considering performance context in the AA.

Table 2 below reflects a **poor** distribution of home mortgage loans to borrowers of low- and moderate-income levels. While the distribution of home mortgage loans to low- and moderate-income borrowers is lower than the percentage of AA families in the AA, performance is considered **reasonable** when considering performance context in the AA. Lending opportunities are impacted by the bank not offering a traditional 30 year fixed-rate mortgage loan product, only shorter term variable-rate home loans that generally require large down payments. Other factors considered is the high poverty rate of 17 percent, competition from other larger lenders, and high percentage of households in retirement (19.89 percent) and living on social security (38.74 percent).

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 Mortgage	22.7	0.0	17.2	6.7	25.7	30.0	34.4	63.3

Source: Data reported under HMDA; 2010 U.S. Census data.

In evaluating the distribution of consumer loans, we considered a sample of 20 consumer loans FNB originated inside the Texas Non-MSA AA from January 1, 2014 through June 30, 2017 in our analysis. The bank's distribution of consumer loans among LMI borrowers is **reasonable**, and thus generally meets the standard for satisfactory performance. As reflected in Table 2B, the percentage of consumer loans by number (30 percent) originated to moderate-income borrowers significantly exceeds the percentage of AA moderate-income households (17.2 percent) although the percentage of consumer loans by number (5 percent) originated to low-income borrowers is below the percentage of AA low-income households (22.7 percent).

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	22.7	5.0	17.2	30.0	25.7	10.0	34.4	55.0

Source: Consumer loan sample; 2010 U.S. Census data.

Geographic Distribution of Loans

Texas Sherman-Denison MSA AA

The geographic distribution of loans in the Texas Sherman-Denison MSA AA is **reasonable** when considering performance context factors and generally meets the standards of satisfactory performance. The bank's distribution of home mortgage loans among LMI geographies reflects **excellent** dispersion, while the distribution of consumer loans among LMI geographies reflects **poor** dispersion.

In evaluating home mortgage lending, the percentage of the number of home loans originated in each geography income level is compared to the percentage distribution of owner-occupied housing in those geography income levels. The bank's distribution of home mortgage loans during the review period to moderate-income geographies reflects **excellent** dispersion, and thus exceeds the standard of satisfactory performance. As detailed in Table 3 below, the percentage of the number of home mortgage loans originated in moderate-income census tracts (40.4 percent) exceeds the percentage of owner-occupied housing units in those geographies (23.0 percent). There are no low-income geographies in this 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 Mortgage	0.0	0.0	23.0	40.4	57.4	48.1	19.6	11.5

Source: Data reported under HMDA; 2010 U.S. Census data.

In evaluating consumer lending, the percentage of the number of loans originated in each geography income level is compared to the percentage distribution of AA households located in those geography income levels. Consumer loans originated by the bank during the review period reflect a **reasonable** geographic dispersion when considering performance context in the AA. As reflected in Table 3B, the geographic distribution of consumer loans in this AA reflects a **poor** dispersion. In part, the **poor** dispersion is explained by the absence of low-income geographies in the AA. The **poor** dispersion in moderate-income geographies is considered reasonable given performance context factors such as the bank's location and proximity to moderate-income geographies, the poverty level of 13.26 percent, the high percentage of households in retirement (17.6 percent), and increasing competition from other larger lenders and credit unions. These and other factors, including the bank does not engage in any significant advertising or marketing, resulted in fewer lending opportunities.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	0.0	0.0	24.4	9.5	59.2	71.4	16.4	19.1

Source: Consumer loan sample; 2010 U.S. Census data.

Texas Non-MSA AA

No meaningful geographic distribution analysis was performed for the Texas MSA AA due to the absence of LMI geographies within the Non-MSA AA. The AA is comprised of only four middle-income tracts and consideration must be given to the fact that all were designated distressed non-metropolitan middle-income tracts for the entire review period due to continued population and industry losses in the AA. All 30 home loans originated during the review period, and the 20 consumer loans sampled were originated within the 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 Mortgage	0.0	0.0	0.0	0.0	100.0	100.0	0.0	0.0

Source: Data reported under HMDA; 2010 U.S. Census data.

Table 3B - Geographic Distribution of Consumer Loans in Texas Non-MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of Number of Loans						
Consumer Loans	0.0	0.0	0.0	0.0	100.0	100.0	0.0	0.0

Source: Consumer loan sample; 2010 U.S. Census data.

Responses to Complaints

FNB has not received any complaints regarding its CRA performance during the evaluation period and, therefore, this criterion is not applicable to the Lending Test.

State Rating

State of Arkansas

CRA rating for the State of Arkansas: Satisfactory

The Lending Test is rated: Satisfactory

The major factors that support these ratings include:

- Overall reasonable borrower income distribution of loans considering performance context in the AA. Excellent penetration of consumer loans among borrowers of different income levels offset a poor distribution for home mortgage loans.
- Poor geographic distribution of loans is reasonable when considering performance context in the AA. There are no low-income census tracts in the AA, and the one moderate-income census tract that does now exist has been served by the bank in only the last three months when the Hope branch was opened in Hempstead County on April 17, 2107.

Description of Institution's Operations in ArkansasArkansas Non-MSA AA

FNB has one AA within the state of Arkansas. The Non-MSA AA includes two contiguous non-metropolitan areas of the state, Lafayette and Hempstead County. These non-metropolitan areas were combined for analytical purposes. The branch in Lewisville, Arkansas (Lafayette County) opened shortly following the last PE in June 2011. The town of Lewisville is the county seat of Lafayette and is primarily rural with a population of 1,200. The bank opened a second branch in neighboring Hempstead County just 24 miles north in the city of Hope, Arkansas on April 17, 2017. The city of Hope is the county seat of Hempstead County and the most populous city in the county with a population of 10,095. According to 2010 U.S. Census data, Hempstead County had a population of 22,609, which is almost three times the population of neighboring Lafayette County with a population of 7,645. Lafayette County is the third least populous county in Arkansas.

The AA contains seven whole census tracts (CTs), one moderate-income, five middle-income, and one upper-income. There are no low-income geographies in the AA. The Lewisville bank is located in a primarily rural middle-income CT (4701.00). The Hope branch, which opened within the last three months, is situated in the only moderate-income CT of the AA (4805.00).

According to 2010 U.S. Census data, the Arkansas Non-MSA AA had a population of 30,254. The AA had a total of 8,281 families and 11,490 households. Of a total 14,876 housing units, 55 percent are owner-occupied units, 22 percent rental-occupied, and 23 percent of the units are vacant. AA household poverty is high at 22 percent, and the percentage of households in retirement or drawing social security total 15 percent and 35 percent, respectively. Average median housing in the AA is valued at \$62,093 and average median family income is \$41,402.

The bank offers a full range of loan and deposit products in both AAs, but as indicated previously, they do not offer a traditional a 30-year fixed-rate mortgage loan product or sell loans into the secondary market. The bank offers short term (3-5 year) variable-rate mortgages loans that require a 20 percent down payment or equity position. LMI applicants typically have difficulty qualifying for home loans, and more so under variable-rate financing terms. The two banks in the AA were opened after the previous CRA examination and account for 50 percent of the bank's total branch network. The Hope, Arkansas bank was opened less than three months ago on April 17, 2017. As of June 30, 2017, the deposits attributed to the Arkansas Non-MSA AA totaled \$13.4 million and represented 15.6 percent of the bank's \$86MM in overall deposit base, while loans totaled \$10.6 million represented 15.9 percent of the bank's \$66MM in overall total loans.

The banking environment is competitive given that branches of much larger regional and state financial institutions operate within the AA. According to FDIC Market Share Report for June 30, 2016, there are nine other banks operating in 14 offices within the AA. Branches of Regions Bank and Farmers Bank & Trust Company operate four offices in the area and reported similar deposit totals of \$125 million, which accounts for 44 percent of the market. FNB reported a total \$8.2 million in deposits representing less than 2 percent of the market share. Red River Credit Union and Carter Federal Credit Union also operate within the AA and compete for loan and deposit products.

Major employers in the area include Tyson Foods, New Millennium Building Systems, Steel Dynamics, Southern Bakeries, Georgia Pacific, Klipsch Audio Technologies, and the Wadley Hospital. Major industry includes manufacturing, food processing, steel, forestry, and healthcare.

We conducted one community contact with a local nonprofit corporation whose purpose is to attract and maintain industry and businesses through the offering of performance-based tax grants for the benefit of economic growth and expansion in the county. The contact had a favorable perception of local financial institutions and believed they were actively involved in the community. Because of population loss experienced over the last decade, the contact felt the credit needs of the community included new affordable housing, low rate small business loans, and small dollar consumer loans.

Scope of Evaluation in Arkansas

For the state of Arkansas, we completed a full-scope review of the Non-MSA AA. No limited-scope review was conducted. Ratings are based solely on the results of the full-scope review. Please refer to the table in Appendix A for more information.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ARKANSAS

The Lending Test analysis that follows evaluates FNB's Arkansas lending activity as described earlier in the scope section. The factors considered include (1) Lending to Borrowers of Different Income Levels; (2) Geographic Distribution of Loans; and (3) Response to CRA Complaints.

LENDING TEST

Overall, FNB's performance under the Lending Test for Arkansas is **Satisfactory**. We focused our review on the bank's primary lending products, residential real estate and consumer loans. We considered bank size and branch locations, lending capacity and opportunities, market competition, demographic and economic data, and the bank's strategic plan. This conclusion is based on an analysis of home mortgage loans (19) and sampled consumer loans (20) originated in the AA. We compared the income distribution of borrowers to the income distribution of families and households in the AA, using the FFIEC median family income (MFI).

Borrower distribution of lending to borrowers of different income levels reflects **reasonable** penetration when considering the performance context of the AA, and thus meets the standard of satisfactory performance. Geographic distribution of lending to LMI geographies indicates **reasonable** dispersion. **Poor** geographic distribution of loans is considered **reasonable** when considering performance context in the AA. There are no low-income census tracts in the AA, and the one moderate-income census tract that does now exist has been served by the bank in only the last three months when the Hope branch was opened in Hempstead County on April 17, 2017.

There were no CRA-related complaints during the evaluation period to evaluate the bank's responsiveness, thus this criterion is not applicable to lending performance.

Refer to Table 1 Lending Volume in the state of Arkansas section of Appendix C for the facts and data used to evaluate the bank's lending activity.

Lending to Borrowers of Different Incomes

The distribution of loans in Arkansas to borrowers of different income levels is **reasonable**. The distribution of home mortgage loans among borrowers of different income reflects **poor** penetration among LMI borrowers, but performance is considered **reasonable** when considering performance context in the AA. The distribution of consumer loans reflects **excellent** penetration among LMI borrowers. More weight was placed on the distribution of consumer loans.

As detailed in Table 2 below, the distribution of home mortgage loans originated to borrowers of low- and moderate-income levels is lower than the percentage of families in those income levels. The percentage of the number of home loans originated to borrowers of moderate-income levels (5.3 percent) lags the percentage of AA families in that geographic income level (16.6 percent). There were no home loans originated to borrowers of low-income levels although the percentage of AA families in that geographic income level is 23.3 percent. Performance is considered **reasonable** when considering performance context. The bank's lending opportunities were limited considering it does not offer a traditional 30 year fixed-rate mortgage loan product though shorter term adjustable-rate mortgages are available to the community. LMI borrowers have difficulty qualifying for conventional home loans. Other factors contributing to the poor penetration include the high poverty rate of 22.18 percent, competition from larger lenders, and the percentage of AA households in retirement (14.61 percent) and those living on social security (34.4 percent).

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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 Mortgage	23.3	0.0	16.6	5.3	19.6	10.5	40.5	79.0

Source: Data reported under HMDA; 2010 U.S. Census data. Income information is NA for 5.2%, or 1 mortgage borrower.

In evaluating the distribution of consumer loans, we considered a sample of 20 consumer loans FNB originated inside the Arkansas Non-MSA AA from January 1, 2014 through June 30, 2017 in our analysis. Borrower distribution of consumer loans in the Arkansas Non-MSA AA reflects **excellent** penetration among LMI borrowers, and thus exceeds the standard for satisfactory performance.

As reflected in Table 2B below, the percentage of consumer loans by number originated to moderate-income borrowers (20.0 percent) exceeded the percentage of AA moderate-income households (15.7 percent). Similarly, the percentage of consumer loans, by number originated, to low-income borrowers (30.0 percent) exceeded the percentage of AA low-income households (22.7 percent).

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	26.5	30.0	15.7	20.0	16.3	20.0	41.5	30.0

Source: Consumer loan sample; 2010 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of mortgage and consumer loans in the Arkansas MSA AA reflects **poor** dispersion to LMI borrowers, but is considered **reasonable** when considering performance context in the AA.

Table 3 and 3B reflects a **poor** dispersion of lending among mortgage and consumer loans in moderate-income census tracts during the review. The bank's performance is **reasonable** when considering the bank has only one moderate-income geography in the AA (4805.00). First, there are no low-income census tracts in the AA, and the bank's only moderate-income census tract (4805.00) has only recently been a part of the AA as the Hope branch opened less than three months ago on April 17, 2017. The moderate-income census tract was not part of the bank's AA during the period of our review of HMDA reported loans (January 1, 2014 through December 31, 2016), and sufficient time has not passed since the Hope branch opening to expect any significant level of consumer loans to perform any meaningful geographic analysis.

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 Mortgage	0.0	0.0	8.1	0.0	80.9	94.7	11.0	5.3

Source: Data reported under HMDA; 2010 U.S. Census data.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	0.0	0.0	13.5	0.0	77.1	100.0	9.4	0.0

Source: Consumer loan sample; 2010 U.S. Census data.

Responses to Complaints

There were no CRA-related complaints during the evaluation period to evaluate the bank's responsiveness, thus this criterion is not applicable to lending 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 (excludes CD loans, Investments, and Services) Home Mortgages: (01/01/2014 to 12/31/2016) Consumer Loans: (01/01/2014 to 06/30/2017)	
Financial Institution	Products Reviewed	
First National Bank Tom Bean, Texas	Home Mortgages and Consumer Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
<i>[Instructions: Provide only if affiliate products are reviewed.]</i> (Name of Affiliate (Abbreviation))		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information (Reflects Counties in AA).
State of Texas Sherman-Denison MSA TX Non-MSA	Full-Scope Full-Scope	Grayson County (Entire MSA) Red River County
State of Arkansas AR Non-MSA	Full-Scope	Lafayette and Hempstead Counties

Appendix B: Summary of State Ratings

RATINGS First National Bank of Tom Bean	
Overall Bank:	Lending Test Rating
FNB of Tom Bean	Satisfactory
Multistate Metropolitan Area or State:	
Texas	Satisfactory
Arkansas	Satisfactory

Appendix C: Community Profiles for Full-Scope Areas

Texas Sherman-Denison MSA AA

Demographic Information for Full-Scope Area: Texas Sherman-Denison MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	26	0	30.8	57.7	11.5	0
Population by Geography	120,877	0	25.4	56.3	18.3	0
Owner-Occupied Housing by Geography	32,076	0	23.0	57.4	19.6	0
Businesses by Geography	7,356	0	25.1	59.1	15.8	0
Farms by Geography	436	0	8.9	63.3	27.8	0
Family Distribution by Income Level	31,768	20.8	18.1	21.6	39.8	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	12,377	0	34.6	53.1	12.3	0
Median Family Income = \$58,173		Median Housing Value = \$101,895				
HUD Adjusted Median Family Income for 2016 = \$56,200		Unemployment Rate = 7.7%				
Households Below the Poverty Level = 13.26%						

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 U.S. Census, and 2016 HUD updated MFI.

The Sherman-Denison MSA AA contains 26 whole census tracts (CTs), eight moderate-income, 15 middle-income, and three upper-income. The main bank is located in a primarily rural upper-income CT (0018.02) that borders two middle-income CTs and one other upper-income CT. There are no low-income CTs in the MSA. The closest moderate-income CT (0015.00) to the main bank in Tom Bean is 10 to 12 miles northwest in Sherman.

According to the 2010 U.S. Census, the MSA has experienced moderate economic and population growth since the 2000 U.S. Census as the population grew by 10,282 or 9.3 percent to 120,877. The distribution of families by income level within the AA is 20.8 percent low-income, 18.1 percent moderate-income, 21.6 percent middle-income, and 39.8 percent upper-income. There are 31,768 families and 45,545 households. Of a total 53,103 housing units, 60.4 percent are owner-occupied, 25.3 percent are rental-occupied, and 14.2 percent are vacant. Moderate-income geographies contain only 23 percent of the owner-occupied housing units and almost 35 percent of low- and moderate-income (LMI) families. Household poverty is relatively high at 13.26 percent with 23 percent of those households residing in moderate-income geographies. The median family income of the MSA of \$58,173 and a median housing value of \$101,895 makes home affordability for LMI individuals difficult. Based on MFI of \$58,173, low-income families earned a median annual income of \$29,087 and moderate-income families earned annual income ranging from \$29,087 to \$46,538. The median age of housing in moderate-income geographies is 52 years with an average median housing value of \$67,071.

FNB provides a full range of loan and deposit products in both AAs, but the bank does not offer a traditional 30 year fixed-rate mortgage loan product that lower income applicants generally need to purchase a home. In addition, the bank generally requires down payments or equity of 20 percent on the mortgage products it does offer. Also, when considering the large rural geographies the bank serves, management indicated the bank's mortgage lending opportunities loans are limited by Texas Law. According to Article XVI, Section 50(a) (6) of the Texas Constitution, after Jan. 1, 2008, an individual cannot have land designated for agricultural use if the land secures a home equity loan. Title companies cannot issue title policies in these instances. The option is for land owners to remove their agricultural exemptions for refinance purposes and re-apply for the exemption after closing. However, when the agricultural exemption is removed, the property owner is subject to paying the property taxes in arrears for the past five years. This added expense, in addition to loan closing costs, could significantly reduce the amount of equity the borrower originally intended to obtain from the loan.

As of June 30, 2017, Texas banks represented 50 percent of the bank's overall branch network, 84 percent of the bank's overall deposits and 84 percent of overall loans. The Sherman-Denison MSA AA is the bank's most significant AA. Deposits attributed to the MSA totaling \$46 million represented 64 percent of \$72 million in Texas bank deposits and 54 percent of the \$86 million in total bank deposits. Loans attributed to the MSA totaling \$40 million represented 71 percent of \$56 million in Texas bank loans and 60 percent of \$66 million in total bank loans.

The bank operates within a very competitive banking environment. FNB faces increased competition outside its local area from larger financial institutions that are closer in proximity to LMI areas and offer special financing programs targeted to LMI borrowers. According to the FDIC Market Share Report, as of June 30, 2016, there are 13 banks operating in 43 offices within the AA. The American Bank of Texas and Landmark Bank, NA led in deposit market share at 34 percent and 18 percent, respectively. FNB ranked eighth with deposits totaling \$30 million and only 1.67 percent market share. Texas Star Bank, headquartered nearby in Van Alstyne, operates and has a branch in the city of Tom Bean and has three other offices in the AA with deposits totaling \$171 million and a market share of 7.5 percent. Additionally, two credit unions operate offices within 15 miles of the bank, City Credit Union in Sherman and Fannin Federal Credit Union in Bonham.

The local economic conditions are stable, and the economy is dependent on health care, retail and manufacturing. According to the Bureau of Labor Statistics, employment conditions in the Sherman-Denison MSA improved during the evaluation period. Unemployment levels in the area declined from 7.7 percent in December 2010 to 3.6 percent in December 2016, which compares favorably to the state unemployment rate in December 2016 of 4.6 percent. Major employers in the Sherman-Denison MSA AA include Tyson Foods, Texoma Health Systems, Texas Instruments, Raytheon, Cigna, and the Wilson Jones Health Systems. The largest labor sectors are services, education, healthcare, and government.

We contacted a local community organization in the AA to get a better understanding of the general community credit and development needs, and discuss local economic conditions. The contact stated that, for the most part, local financial institutions are actively involved in the community. Credit and development opportunities exist for the expansion of businesses, and more flexible credit underwriting of working capital and small business loans is needed.

Additionally, the contact stated that low-income housing and reasonable rental property are persistent needs in the community.

Texas Non-MSA AA

Demographic Information for Full-Scope Area: Texas Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	4	0	0	100.0	0	0
Population by Geography	12,860	0	0	100.0	0	0
Owner-Occupied Housing by Geography	3,635	0	0	100.0	0	0
Businesses by Geography	623	0	0	100.0	0	0
Farms by Geography	100	0	0	100.0	0	0
Family Distribution by Income Level	3,696	22.7	1.2	25.7	34.4	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	1,474	0	0	100.0	0	0
Median Family Income = \$43,756		Median Housing Value = \$101,895				
HUD Adjusted Median Family Income for 2016 = \$52,400		Unemployment Rate = 7.9%				
Households Below the Poverty Level = 16.99%						

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 U.S. Census, and 2016 HUD updated MFI.

The Non-MSA AA consists of four middle-income CTs. There are no low- and moderate-income (LMI) geographies in the AA. All four CTs are designated “Distressed Middle Income Nonmetropolitan Tracts” and have been for the entire review period due to high poverty and population losses.

According to 2010 U.S. Census data, the AA consists of 3,696 families and 5,108 households, and 33.9 percent of families are low- and moderate-income. Of a total 6,863 housing units, 52.9 percent are owner-occupied, 21.5 percent are rental-occupied, and 25.6 percent are vacant. Those households living below the poverty rate is above average at 17 percent, and close to 20 percent of households are in retirement and 39 percent drawing social security. Average median housing is valued at \$60,472, and the average median family income is \$43,756. Home affordability for LMI individuals is difficult. Based on MFI of \$43,756, low-income families earned a median annual income of \$21,878 or less, and moderate-income families earned annual income ranging from \$21,878 to \$35,005. The median age of housing in moderate-income geographies is 42 years with an average median housing value of \$60,472.

A full range of loan and deposit products are offered in the AA with the exception of a traditional 30-year fixed-rate mortgage loan product as indicated earlier. LMI applicants generally have difficulty qualifying for home loans, and more so without long-term financing options.

As of June 30, 2017, the Texas Non-MSA AA accounts for 36 percent of Texas bank deposits totaling \$72 million, and 30 percent of overall bank deposits totaling \$86 million. Texas Non-MSA loans totaled \$16 million and accounted for 29 percent of \$56 million in Texas bank loans and 25 percent of \$66 million in overall bank loans.

The banking environment within the AA is competitive with the existence of larger financial institutions that offer special financing programs targeted to LMI borrowers. According to the FDIC Market Share Report, as of June 30, 2016, there are five banks operating in six offices within the AA. State Bank of De Kalb and Guaranty Bank & Trust ranked first and second with a combined three offices and 60 percent market share. FNB ranked third with deposits totaling \$24.5 million and 15.5 percent market share. Additionally, there are three credit unions operating in the area that also compete for loans and deposits (North East Teachers Federal Credit Union, Red River Federal Credit Union, and Texas Farm Credit).

According to the Bureau of Labor Statistics, employment conditions in the Texas Non-MSA improved during the evaluation period from 7.9 percent in December 2010 to a level consistent with the state unemployment rate in December 2016 of 4.6 percent.

Food processing, forestry, agriculture, manufacturing, construction, and retail services are major industries in the area. Major employers include the Red River Valley Egg Farm, Magnolia Brush, Northeast Texas Pallet, Pacific Columns, Martin Sprocket & Gear, K&B Steel, independent school districts, and the county government. Many residents in the Non-MSA AA commute to the cities of Paris, Texarkana, and Bonham for work.

We made contact with one community leader in the AA to get a better understanding of the general community credit and development needs, and discuss local economic conditions. The contact stated that, for the most part, local financial institutions were doing a good job and were very community oriented. Credit and development opportunities exist for the expansion of small businesses, and that more flexible credit underwriting of working capital and small business loans is needed. Additionally, the contact stated that low denomination consumer loans for weatherization and maintenance projects in low- and moderate-income communities are needed.

State of Arkansas

Arkansas Non-MSA AA

Demographic Information for Full-Scope Area: Arkansas Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	7	0	14.3	71.4	14.3	0
Population by Geography	30,254	0	15.9	74.9	9.2	0
Owner-Occupied Housing by Geography	8,159	0	8.1	80.9	11.0	0
Businesses by Geography	1,404	0	14.3	71.4	14.3	0
Farms by Geography	154	0	4.6	83.8	11.7	0
Family Distribution by Income Level	8,281	23.3	16.6	19.6	40.5	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	3,305	0	15.6	79.4	5.1	0
Median Family Income = \$41,402 HUD Adjusted Median Family Income = \$44,700 for 2016 Households Below the Poverty Level = 22.18%			Median Housing Value = \$62,093 Unemployment Rate = 9.6%			

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

The Arkansas Non-MSA AA contains seven whole census tracts (CTs) making up both Lafayette and Hempstead Counties, one moderate-income, five middle-income, and one upper-income. There are no low-income geographies in the AA. The Lewisville bank located in Lafayette County is situated in a primarily rural middle-income CT (4701.00). The Hope bank, located in Hempstead County, is situated in the only moderate-income CT of the AA (4805.00) and opened less than three months ago on April 17, 2017.

According to 2010 U.S. Census data, the Arkansas Non-MSA AA had a population of 30,254, and consisted of 8,281 families and 11,490 households. Of a total 14,876 housing units, 55 percent are owner-occupied units, 22 percent are rental-occupied, and 23 percent of the units are vacant. A high percentage of AA households are living below the poverty rate (22 percent), 15 percent are in retirement, and 35 percent of households live on social security. Average median housing is valued at \$62,093 and the average median family income is \$41,402. Home affordability for LMI individuals is difficult. Based on MFI of \$41,402, low-income families earned a median annual income of \$20,701 or less, and moderate-income families earned annual income ranging from \$20,701 to \$33,122. The median age of housing in the moderate-income geographies is 38 years with an average median housing value of \$47,100.

The bank offers the same full range of loan and deposit products as the other AAs, and does not offer a traditional 30-year fixed-rate mortgage loan product. It does offer shorter term (3-5 year) variable-rate mortgage loans that require a 20 percent down payment or equity position.

However, LMI applicants typically have difficulty qualifying for home loans variable-rate financing terms. The two banks in the AA were opened after the previous CRA examination and account for 50 percent of the bank's total branch network. It is again important to note the Hope, Arkansas bank was opened in the three months leading up to this evaluation. The Arkansas Non-MSA represents the smallest percentage of the bank's overall loans and deposits. As of June 30, 2017, the deposits attributed to the Arkansas Non-MSA AA totaled \$13.4 million and represented 15.6 percent of the bank's \$86MM in overall deposits while loans totaled \$10.6 million and represented 15.9 percent of the bank's \$66MM in overall total loans.

The banking environment is competitive. Larger regional and state financial institutions operate within the AA. According to FDIC Market Share Report for June 30, 2016, nine other banks operate 14 offices within the AA. Branches of Regions Bank and Farmers Bank & Trust Company operate four offices and report almost equal volumes of deposits totaling \$125 million, which accounts for 44 percent of the market. Deposits attributed to the Arkansas MSA AA \$8.2 million represented less than 2 percent of the market share. Red River Credit Union and Carter Federal Credit Union also operate within the AA and compete for loan and deposit products.

According to the Bureau of Labor Statistics, employment conditions in the two counties making up the Arkansas Non-MSA during the evaluation period improved. Hempstead County unemployment improved from an average of 9.3 percent in 2010 to 3.8 percent in 2016. Lafayette County unemployment improved from an average of 9.9 percent in 2010 to 5.9 percent in 2016, below the average state unemployment rate for 2016 of 4.0 percent.

Major employers in the area include Tyson Foods, New Millennium Building Systems, Steel Dynamics, Southern Bakeries, Georgia Pacific, Klipsch Audio Technologies, and the Wadley Hospital. Major industry includes manufacturing, food processing, steel, forestry, and healthcare.

We conducted one community contact with a local nonprofit corporation whose purpose is to attract and maintain industry and businesses through the offering of performance-based tax grants for the benefit of economic growth and expansion in the county. The contact had a favorable perception of local financial institutions and believed they were actively involved in the community. Because of population loss over the last decade, the credit needs of the community include new affordable housing, low rate small business loans, and small dollar consumer loans.