



PUBLIC DISCLOSURE

July 17, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

NewFirst National Bank
Charter Number 6112

202 East Jackson, El Campo, TX 77437

Office of the Comptroller of the Currency

1301 McKinney Street, Suite 1410, Houston, TX 77010-3031

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Outstanding

NewFirst National Bank (NFNB) has a Satisfactory record of meeting community credit needs based on the following:

- NFNB has maintained a loan-to-deposit (LTD) ratio on a quarterly basis that is more than reasonable compared to similarly sized peer banks.
- A substantial majority of the bank's lending is inside the combined assessment area (AA) by number and dollar amount of loans originated.
- Lending to businesses of different sizes reflects reasonable penetration of small businesses with gross annual revenues of \$1 million or less compared to the census characteristics.
- Geographic distribution of loans reflects reasonable dispersion of small business loans in census tracts (CTs) in the AAs.
- The bank's performance under the Community Development (CD) Test is Outstanding and shows excellent responsiveness to the needs of its AAs.

Scope of Evaluation

We conducted an evaluation of NFNB's lending performance to determine the bank's compliance with the Community Reinvestment Act (CRA). NFNB was evaluated under the Intermediate Small Bank (ISB) CRA procedures, which includes a Lending Test and a CD Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AAs through lending activities. The evaluation period for the Lending Test was from January 1, 2015 through December 31, 2016. The CD Test evaluates the bank's responsiveness to CD needs in its AAs through qualified CD lending, investments, and services. We evaluated CD activities from June 24, 2014, to the start date of this evaluation, July 17, 2017.

After reviewing the bank's loan portfolio composition, we found that NFNB's primary loan product is business loans, which represent 44 percent of total loans by dollar amount and 29 percent by number of loans as of March 31, 2017. By category of business loans, commercial real estate loans were 29 percent and commercial and industrial loans were 15 percent of the loan portfolio. Other individual loan categories such as residential, farmland and agricultural, and consumer represent approximately 20 percent or less of total loans and were not considered as a primary loan product.

As an ISB, the bank is not required to collect or report loan data for business loans, and management elected not to collect this information during this evaluation period. Therefore, we based our analyses under the Lending Test on a statistically valid random sample of 90 business loans originated or renewed from January 1, 2015 through December 31, 2016.

For the CD Test, our review included all CD loans, investments, and services in the AAs since the date of the last CRA evaluation, June 23, 2014, through the date of this evaluation, July 17, 2017.

Description of Institution

NFNB is a full service community bank headquartered in El Campo, Texas. The bank is wholly owned by NewFirst Financial Group, Inc. and has one related organization known as NewFirst Insurers. NFNB bank serves its community with seven locations in Texas, with the main branch in El Campo, and one branch in each of the following cities: Wharton, Edna, Rosenberg, Sugarland, Needville, and Victoria. A Loan Production Office (LPO) was opened in Fulshear, Texas in October 2013. Banking hours are reasonable and range between 8:00 a.m. to 5:00 p.m. Monday through Friday with some locations with extended hours on Friday to 6:00 p.m. Two of the branches are open on Saturday, with operating hours from 9:00 a.m. to 12:00 p.m. All branches offer motor banking services. Automated teller machine (ATM) services are available at all branches except at the Sugarland and Edna location. One branch that was located in Houston was closed since the previous CRA examination.

The bank provides a comprehensive line of loan and deposit products and other banking services, including online and mobile banking, check cards, remote deposit capture, night depository, merchant services, wire transfer, and safe deposit boxes. Various products such as consumer, real estate, commercial, Small Business Administration and agriculture loans are offered at all its locations including the LPO.

As of March 31, 2017, NFNB had \$653 million in total assets and a tier one leverage capital ratio of 10.6 percent. The bank received a Satisfactory rating at the prior CRA evaluation dated June 23, 2014. There are no legal or financial factors that impede the bank's ability to meet the credit needs of its community.

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

Description of Assessment Areas

NFNB has three AAs: Houston, Wharton/Jackson, and Victoria. The Houston AA consists of Fort Bend and Harris Counties, which are a part of the Houston-The Woodlands-Sugarland Metropolitan Statistical Area (MSA). The Wharton/Jackson AA consists of Wharton and Jackson Counties; these counties are not in an MSA. The Victoria AA consists of Victoria County, which is in the Victoria MSA.

The Houston AA consists of only a portion of Harris County and includes 511 of the 786 total CTs in the county.

This is a change since the previous CRA examination as the bank closed its only branch located in Harris County in October 2014. The other AAs include full counties, and all AAs do not arbitrarily exclude any low- or moderate-income CTs.

Houston AA

The Houston AA includes all CTs in Fort Bend County and 511 CTs in Harris County. The counties are adjacent and form one contiguous AA. The AA consists of 587 CTs: 69 low-income, 142 moderate-income, 153 middle-income, 220 upper-income and three that are not income defined. The Houston AA has a population of 4.6 million according to U.S. Census data from 2010. The county seat for Fort Bend County is Richmond, while the county seat for Harris County is Houston.

Fort Bend County is in the coastal plains of southeastern Texas and boasts a population of 585,000 according to the 2010 U.S. Census making it the tenth most populous county in Texas. The largest city in the county is Sugarland, with a population of 82,000. The economy of Fort Bend remains stable. Per the Fort Bend County Developmental Council, the top industries include food manufacturing, energy, engineering, education, health care, and technology. According to the 2015 U.S. Census, the estimate median household income is \$95,117. The 2010 U.S. Census reports that 8 percent of residents were below the poverty level and the unemployment rate is 5 percent.

Harris County has a population of over 4 million and is home to Houston, the largest city in the state of Texas and the fourth largest city in the nation. The economy of Harris County remains stable. According to the 2015 U.S. Census, the estimate median household income is \$56,670. The top industries include petroleum refining, chemicals, food, fabricated metal products, and non-electrical machinery. Houston is also a major center for higher education, with more than 300,000 students enrolled in 28 colleges and universities in the county. The 2011-2015 American community survey indicates 18 percent of residents were below the poverty level and the unemployment rate is 5 percent.

Competition with other financial institutions in the Houston AA is significant. According to the Federal Deposit Insurance Corporation (FDIC) Market Share Report, as of June 30, 2016, there were 117 institutions in the AA. NFNB has three of its branches in the Houston AA and holds 2.31 percent of the deposit market share. The largest deposit market shareholders in the AA are Wells Fargo Bank, N.A., JP Morgan Chase Bank, N.A., and Bank of America, N.A.

Wharton/Jackson AA

The Wharton/Jackson AA consists of 15 CTs combined as one contiguous AA. The AA consists of one moderate-income CT, nine middle-income CTs, and five-upper income CTs. The Wharton/Jackson AA has a population of 55,000 according to the 2010 U.S. Census. Wharton County has a population of 41,000 and Wharton serves as the county seat. El Campo is the largest city in the county.

According to the 2015 U.S. Census, the estimate median household income is \$45,198. Major employers include the independent school districts (ISDs) for Wharton and El Campo, Wharton Junior College, the City of Wharton and HEB Food Store. The economy in Wharton County has remained stable and is driven primarily by agriculture, manufacturing, and oil and gas activities. The unemployment level for Wharton County is 4.8 percent with 17.6 percent of residents living below the poverty level.

Jackson County is adjacent to Wharton County and has a population of 14,800, according to the 2010 U.S. Census, with Edna serving as the largest town and as the county seat. The 2015 estimate median household income is \$53,667. The economy of Jackson has remained stable and centered in petroleum and natural gas production, retail trade, and grain production. Major employers include the Jackson County Hospital and Edna and Jackson ISDs. The Bureau of Labor Statistics reports the unemployment rate for Jackson County is 4.1 percent with 12.4 percent of residents living below the poverty level.

The bank has a number of competitors in the AA. According to the FDIC Market Share Report, as of June 30, 2016, there are 13 financial institutions in the AA. NFNB has three branches in the Wharton/Jackson AA and holds 12.77 percent of the deposit market share. Major competitors include Prosperity Bank and The First State Bank.

Victoria AA

The Victoria AA consists of the entire county of Victoria, which is a large segment of the Victoria MSA. The AA contains 23 CTs. Two low-income CTs, five moderate-income CTs, 11 middle-income CTs, four upper-income CTs and one CT where no income designation was specified.

The 2010 U.S. Census reported the population of the Victoria AA as 86,793. The city of Victoria is the largest city in Victoria County, and serves as the county seat. The economy in Victoria has remained stable. The top employers include Victoria ISD, DeTar Healthcare system, City of Victoria, Victoria County, University of Houston-Victoria, Citizen Medical Center, INVISTA, Pioneer Natural Resources, Caterpillar, and Victoria College. According to the 2015 U.S. Census, the estimate median household income is \$55,406. The unemployment rate for Victoria County is 5.1 percent, with 13.6 percent of the population living below the poverty level.

Banking competition in Victoria County continues to be intense. According to the FDIC Market Share Report, as of June 30, 2016, there were 14 financial institutions in the AA. NFNB has one branch in the Victoria AA. The bank has 4.35 percent of the deposit market share. Major competitors in the AA are Prosperity Bank, Wells Fargo Bank, N.A., and Bank of America, N.A.

Community Contacts

A representative from the District Community Affairs Department for the OCC contacted an organization in the Houston AA, specifically in Harris County, the largest county in the Houston AA.

The organization is a minority owned company that provides strategic guidance to companies and individuals involved in business development as well as provides consulting on policy/regulatory issues. The representative stated that there is a credit need for small businesses in the area, specifically lending to start-up businesses, as initial funding can be difficult. NFNB's primary product is business loans. During the review period, NFNB provided loans to small businesses in the AA.

A representative from the FDIC contacted an organization in the Wharton/Jackson AA and more specifically in Wharton County. The goal of this organization is to promote, educate, and retain economic and development programs in and around the largest city in the county, El Campo, TX. The organization stated that there are several opportunities for bank involvement in the community, including board positions with local school systems, community development projects, and community service activities. Overall, banks in the area are extremely interactive with the development and programs that are in the city and meeting the community's credit needs. The organization's representative also mentioned that there are still some opportunities for banks to educate the area's small business owners in investments and finances to help them grow. Several community development services and donations are to local schools and other community organizations in the AA.

We also contacted an organization in the Victoria AA who provided information on the banks in the surrounding area and the economic development opportunities that are available to the local banks. The organization mentioned that banks have been actively providing assistance in supporting business growth. However, there are still opportunities for banks to provide their financial expertise to educate small business owners on what is required as approval for different levels of bank funding. NFNB has provided community development services to businesses and individuals by providing educational opportunities within the AA.

Conclusions with Respect to Performance Tests

LENDING TEST

The Lending Test is rated Satisfactory. NFNB's LTD ratio is more than reasonable. A substantial majority of the bank's loans were originated inside its AAs. Loan penetration to low- and moderate-income borrowers is reasonable and geographic dispersion in low- and moderate-income CTs is excellent.

Loan-to-Deposit Ratio

The LTD ratio is more than reasonable. As of March 31, 2017, NFNB's quarterly LTD ratio since the prior evaluation averaged 81.1 percent. As a comparator, we used a peer group of eight similarly situated banks with total assets ranging from \$571 million to \$773 million. For the same evaluation period, these peer banks had a quarterly average LTD ratio ranging from a low of 14.05 percent to a high of 100.72 percent.

For the evaluation period, five of the comparator banks had an average quarterly LTD ratio that ranked below NFNB.

Lending in Assessment Area

A substantial majority of the bank's lending is inside its AAs by number and dollar amount of loans. During the evaluation period, 88.89 percent by number and 90.46 percent by dollar amount of loans were originated within the bank's AAs. The following table details the bank's lending inside and outside the AAs by number and dollar amount:

Table 1 - Lending in All AAs										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	80	88.89	10	11.11	90	8,476	90.46	894	9.54	9,370

Source: loan sample.

Lending to Businesses of Different Sizes

Overall, the distribution of loans reflects a reasonable penetration among businesses of different sizes throughout the bank's AAs. Lending to businesses in the Houston AA is below but near the percent of AA businesses with sales/revenues less than \$1 million, and considered reasonable. The distribution of loans to small businesses in the Victoria AA is significantly lower than the ratio of AA businesses and considered somewhat reasonable. Although the economies of these AAs have been negatively impacted by the recent decline in the oil and gas industry, NFNB has been making efforts to continue lending to businesses within these communities. The distribution of loans in the Wharton/Jackson AA is above the characteristics of the AA and has excellent penetration. The bank's performance for all AAs is shown in the following tables:

Table 2A - Borrower Distribution of Loans to Businesses in Houston AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	86.12	5.85	8.03	100.00
% of Bank Loans in AA by #	78.57	21.43	0.00	100.00
% of Bank Loans in AA by \$	79.89	20.11	0.00	100.00

Source: Loan sample; Dunn and Bradstreet (D & B) data.

Table 2B - Borrower Distribution of Loans to Businesses in Wharton/Jackson AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80.57	6.09	13.35	100.00
% of Bank Loans in AA by #	82.14	17.86	0.00	100.00
% of Bank Loans in AA by \$	50.58	49.42	0.00	100.00

Source: Loan sample; D & B data.

Table 2C - Borrower Distribution of Loans to Businesses in Victoria AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	79.40	5.50	15.10	100.00
% of Bank Loans in AA by #	45.83	54.17	0.00	100.00
% of Bank Loans in AA by \$	45.37	54.63	0.00	100.00

Source: Loan sample; D & B data.

Geographic Distribution of Loans

The geographic distribution of loans in the combined AAs reflects reasonable dispersion. Although there was poor dispersion of loans in low-income CTs within the Houston AA, there was excellent dispersion in moderate-income CTs. Lending to business in the Wharton/Jackson AA is centered on moderate-income CTs as there are no low-income CTs in the AA. Lending to businesses in moderate-income CTs is significantly lower than the ratio of AA businesses and reflects poor dispersion. There is an excellent dispersion of loans in low- and moderate-income (LMI) CTs within the Victoria AA. The bank's performance is shown in the following tables:

Table 3A - Geographic Distribution of Loans to Businesses in Houston AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans						
Commercial	7.86	0.00	16.21	21.43	24.89	32.14	51.00	46.43

Source: Loan sample; D & B data.

Table 3B - Geographic Distribution of Loans to Businesses in Wharton/Jackson AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans						
Commercial	0.00	0.00	7.85	3.70	52.47	44.44	39.68	51.85

Source: Loan sample; D & B data.

Table 3C- Geographic Distribution of Loans to Businesses in Victoria AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	3.05	4.17	21.23	25.00	49.71	37.50	25.82	33.33

Source: Loan sample; D & B data.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

The bank demonstrated an outstanding record regarding the CD Test. The level of CD activities demonstrates excellent responsiveness to the needs of the community. Factors supporting this conclusion includes an excellent record regarding qualified CD loans, an adequate record regarding qualified investments/donations and services, combined with good responsiveness to CD needs. NFNB provided \$18.8 million qualifying CD Loans and \$2.8 million in qualifying investments/donations. In addition, NFNB's officers provided 19 CD services to eight organizations during the evaluation period.

Number and Amount of Community Development Loans

NFNB demonstrated excellent responsiveness to CD needs through qualified loan activities within each of the AAs. During the evaluation period, NFNB originated or refinanced 34 CD loans totaling \$18.8 million. CD lending activities were primarily concentrated in affordable housing initiatives. Of the total qualified CD loans, 33 loans, totaling \$18.5 million, supported affordable housing for LMI individuals within all three of the bank's AAs. In addition to supporting affordable housing, one loan totaling \$286,000 was to an entity that provides community services to LMI senior citizens within the bank's AA. The majority of CD lending occurred in the Houston and Victoria AAs, which is appropriate considering the bank's level of lending and opportunities in its AAs.

Overall, CD lending activities exhibited excellent responsiveness to the identified needs in the area, specifically by originating and refinancing loans to borrowers whom provide affordable housing to LMI individuals in the form of rental and multi-family units throughout the bank's AAs.

Number and Amount of Qualified Investments

NFNB demonstrated adequate responsiveness to CD needs through qualified investment activities within each of the AAs during the evaluation period. The bank made 10 qualifying investments and donations totaling \$2.8 million. Qualified investments included a \$1.5 million equity investment in a certified Community Development Entity (CDE) fund. Funds provided by the CDE promote economic development through permanent job creation and retention in low- or moderate-income areas. In addition, the fund provides financing to small businesses and farms. NFNB's investment into the CDE fund was directly allocated to three small businesses within the bank's AA.

Other investments included a \$1.3 million CRA mortgage-backed security (MBS) pool that provided affordable housing to LMI borrowers. All of the loans in the MBS pool were located in the bank's AA. In addition, NFNB had one prior-period investment, a CRA MBS pool with a current book value of \$722,000, which provided affordable housing in the Houston AA.

NFNB provided eight charitable contributions totaling \$40,000 to organizations that provide community services to LMI individuals. The majority of contributions benefited an organization that provides free legal advice to low-income Texans and to various organizations that provide youth programs for LMI students. In addition, other contributions were to an organization that conducts financial literacy programs and education for adults and youth within the AA.

Extent to Which the Bank Provides Community Development Services

NFNB demonstrated excellent responsiveness to CD needs through qualified service activities within each of the AAs. During the evaluation period NFNB provided 19 services to eight organizations within the AAs. CD services were performed in all AAs, with the majority occurring in the Victoria AA. Bank employees provided services and served as board members to various organizations. Of the qualified CD services, a majority performed by employees were for financial expertise to organizations that serve LMI youth in the bank's AAs. Other CD services included providing technical expertise to organizations that facilitate affordable housing and homebuyer assistance programs within the AAs.

In addition to the CD services performed by bank officers, NFNB also offers reasonable access to services in its three AAs. NFNB operates seven full-service branches that allow reasonable access to ATMs, night deposit boxes, and other services. The bank has three branches located in the Houston AA, three branches in the Wharton/Jackson AA, and one branch in the Victoria AA. While the majority of branch locations are located in middle- and upper-income tracts, access for low- and moderate-income individuals is reasonable. The bank's service delivery systems are accessible to geographies and individuals of different income levels in the AAs. The branch system is the primary delivery system for retail banking services and is supplemented by five branch ATMs.

NFNB offers several deposit products including business and personal checking, money market accounts, savings accounts, individual retirement accounts, and certificates of deposit. In addition to a variety of deposit products, loan products consists of real estate, commercial/business, consumer and agriculture.

Responsiveness to Community Development Needs

Considering the bank's capacity, the need, the availability of CD opportunities and NFNB's performance through CD loans, investments, and services, the bank demonstrates excellent responsiveness to the needs of the AAs. The bank originated and refinanced a substantial level of qualified CD loans for affordable housing in its AAs. In addition, the level of investments/donations combined with the level of services indicate excellent responsiveness to CD needs in the AAs.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank's or Federal savings association's (collectively, banks) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the banks, or in any AA by an affiliate whose loans have been considered as part of the banks' lending performance.

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