



PUBLIC DISCLOSURE

June 6, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Kemp
Charter Number 5932

100 South State Highway 274
Kemp, TX 75143

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, 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".

Major factors that support this Satisfactory rating include:

- The bank's loan-to-deposits (LTD) ratio is **reasonable**. The quarterly LTD ratio ranged from a low of 33.75 percent to a high of 50.53 percent.
- A **majority** of loans originated and purchased are within the bank's Assessment Area (AA). The bank originated 79.14 percent by number and 73.31 percent by dollar amount of its loans during the evaluation period within its AA.
- The distribution of residential and business loans to borrowers of different income levels exhibits **reasonable penetration**.
- The geographic distribution of residential and business loans to low- and moderate-income (LMI) census tracts indicates **reasonable dispersion**.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) assesses the Community Reinvestment Act (CRA) performance of The First National Bank of Kemp (FNBK) 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 21, 2010 to June 6, 2016.

FNBK's primary loan products are commercial and residential real estate loans. The bank is required to report data in accordance with the Home Mortgage Disclosure Act (HMDA). Our review focused on residential real estate loans as reported for the HMDA in the years 2012 through 2015. A data integrity review of the loans reported for HMDA, conducted prior to this evaluation, found the data to be reliable. To evaluate commercial loans, we selected a sample of 58 non-farm commercial business loans originated or purchased from January 1, 2012 through December 31, 2015. No apparent anomalies were identified. There were no affiliate activities to review.

DESCRIPTION OF INSTITUTION

FNBK is an intrastate community bank headquartered in Kemp, Texas, which is located in Kaufman County. Since the prior PE, the bank's corporate structure has changed. FNBK Holdings, Inc. acquired the bank in June 2015. The one-bank holding company is owned by John Carona and headquartered in Dallas, Texas. There was no change in the number of bank branches. The bank has two banking facilities, one being the main

bank headquartered in Kemp, and the other a branch bank located in Seven Points, Texas. Seven Points is approximately 7 miles to the south of Kemp. The banking facilities are located in areas accessible to persons from different areas of the communities the bank serves. Lobby and drive-thru hours are set by location to meet community needs. Lobby hours at both locations are Monday through Thursday (9am to 3pm) and Friday (9am to 5pm). There are no lobby hours on Saturdays, but drive-thru hours at both locations are Monday through Friday (8am to 5:30pm) and Saturdays (9am to 12pm). Automatic teller machines (ATMs) are also available at both locations with 24-hour customer access. Debit cards are available to provide customers with additional access to their accounts at point-of-sale.

FNBK has two Assessment Areas (AA), a portion of Kaufman County, Texas, which is part of the Dallas-Plano-Irving Metropolitan Statistical Area (MSA), and a portion of Henderson County, Texas, which is not part of an MSA. The bank has a banking facility in each AA. The AAs do not arbitrarily exclude any low- or moderate-income (LMI) areas. Additional information can be found in the bank's Public File.

FNBK offers traditional personal and business deposit and loan products and services. Loan products include a standard selection of commercial, agricultural, consumer, and residential loans for home purchase, improvements, and refinance. Historically, the bank has not offered home financing options for terms more than five years, or second lien financing unless the bank has a perfected interest in the first lien. In an effort to be more competitive with other financial institutions in its AA, FNBK developed and instituted a secondary market mortgage program in 2016. The new mortgage program will provide customers a permanent financing option in the form of 15, 20, and 30 year Conventional, FHA, and VA residential mortgage loans with a fixed or adjustable rate. Management also intends to evaluate potential business loan programs and products and develop a specific niche in the markets the bank serves. Under consideration are loan participations, loan purchases, medical/professional lending, small business (secured and unsecured lines of credit), builder loans, and no- or low-cost business real estate refinance loans.

Deposit products and services offered by the bank include NOW accounts, money market accounts, individual retirement accounts (IRAs), regular, low-activity, and "Golden Years" checking accounts, and savings and certificate of deposits (CD) accounts. The bank also makes available to customers mobile and internet banking, direct deposit, money orders and cashier checks, night deposit, bank by mail, merchant services, safe deposit boxes and wire transfers (authorized customers only). Management plans to roll out new deposit products and services in 2017.

As of March 31, 2016, the bank had total assets of \$66.1 million, liabilities of \$57.2 million, and capital of \$8.9 million. Net loans totaled \$21.6 million and represented approximately 33 percent of total assets. The origination of commercial and residential real estate loans and commercial business lending are FNBK's primary business focus. As reflected in the table below, commercial and residential loans represent 62 percent of total loans. Consumer and agricultural loans represent a small portion of the loan

portfolio at 7.5 percent and 13.1 percent, respectively. Residential real estate loans (home purchase, home improvement, refinance) represent the largest percentage of loans at approximately 33 percent. Commercial and industrial (business) loans represent another 17 percent of total loans.

First National Bank of Kemp		
Total Loans Outstanding as of 03/31/2016		
Loan Type	Outstanding Balance (\$ in 000's)	% of Total Loans
Residential Real Estate	7,062	32.8
Non-Farm, Non-Residential Real Estate	6,094	28.3
Commercial & Industrial	3,614	16.8
Consumer Loans	1,611	7.5
Farm & Agricultural	2,841	13.1
Construction, Land & Development, & Other Land	282	1.3
Other	48	0.2
Total Outstanding Loans	21,552	100.0%

Source: Bank's Call Report as of 03/31/2016

FNBK faces strong competition from large regional bank branches, state-chartered community banks, credit unions, and other financial institutions in its AAs. Considering the bank's financial condition, improving economy, various loan and deposit product and service offerings, and prior CRA performance, FNBK has the ability to service the credit needs of its communities. There are no legal or financial impediments to the bank's ability to meet the credit needs of its communities.

The bank was rated "Satisfactory" at the last CRA examination dated June 21, 2010.

DESCRIPTION OF ASSESSMENT AREA(S)

Description of the Kaufman County Assessment Area

FNBK has delineated a portion of Kaufman County as an AA. Kaufman County is part of the Dallas-Plano-Irving Metropolitan Division (MD). The AA consists of six census tracts (three moderate-income census tracts and three middle-income census tracts). There are no low-income or upper-income census tracts in this AA. In conjunction with the 2010 Census, changes to Metropolitan Statistical Areas and non-metropolitan areas due to populations resulted in some geographies splitting into two or more census tracts. The bank's headquarters in Kemp, Texas is located in the north central portion of census tract 513.00, a moderate-income geography bordered by two middle-income census tracts. According to the 2015 Federal Financial Institution's Examination Council (FFIEC) Report, none of the AAs middle-income census tracts are classified as either distressed or under-served. The AA is reasonable and meets the requirements of the regulation. It consists of whole geographies, does not arbitrarily exclude low- or moderate-income geographies, and does not reflect illegal discrimination.

The AA includes the cities of Kaufman (the county seat), Crandall, Mabank, and Kemp to name a few. The area has maintained a healthy population growth. Kaufman County as a whole has maintained steady economic and population growth. According to 2010 Census data, the Kaufman County population of 103,350 represents growth of 45 percent from a 2000 census population of 71,313. The population growth rate is much higher than the state average rate of 25.13 percent and national average rate of 11.61 percent.

Census data from 2010 showed the Kaufman County AA population to be 32,337, which represents growth of 13 percent from a 2000 Census population of 28,665. Kemp is primarily rural with a population of 1,469, which represents growth of 30 percent since 2000. There are 13,142 housing units in the AA and 11,784 households. Approximately 74 percent of housing units are 1-4 single-family, 68 percent of which are owner-occupied. The AA median family income is \$59,558 with a median housing value of \$116,354. The Bureau of Labor Statistics estimated unemployment in Kaufman County to be 3.8 percent as of March 31, 2016. This compares favorably to state and national rates of 4.5 percent and 5.0 percent for the same period. Census data from 2010 showed more than 12 percent of households in the AA live below the poverty level.

The table below summarizes 2010 Census Demographic Data for the Kaufman County AA. Again, there are no low-income or upper-income census tracts in the AA.

Demographic Information for Kaufman County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts (CT)/BNAs)	6	0.00	50.00	50.00	0.00	0.00
Population by Geography	32,337	0.00	45.45	54.55	0.00	0.00
Owner-Occupied Housing by Geography	8,986	0.00	40.91	59.09	0.00	0.00
Business by Geography	2,151	0.00	55.42	44.58	0.00	0.00
Family Distribution by Income Level	9,067	0.00	43.79	56.21	0.00	0.00
Households by Geography	11,784	0.00	47.50	52.50	0.00	0.00
Median Family Income		59,558	Median Housing Value	116,354		
HUD Updated Estimated Median Family Income		69,100	Unemployment Rate (March 2016 BLS)	Kaufman County 3.8%		
Households Below Poverty Level		12.25%				

Source: 2010 US Census; Dunn & Bradstreet 2014 Business Demographic data; HUD 2015 Estimated Median Family Income

The area’s general economy has improved steadily since 2010, and management expects Kaufman County to benefit from Dallas area growth. This will increase lending opportunities for the bank. Kaufman County is a “bedroom community” as a large percentage of the population commutes into the Dallas area. Most common industries in Kaufman County are health care and social assistance, educational services, accommodation and food services, and retail trade. Employers are primarily service related, but also include surrounding independent school districts, government offices

(city and county), post offices, and various medical/health facilities such as Texas Health Presbyterian Hospital. Non-farm businesses in the AA total 2,151, of which 73 percent employ four people or less.

The AA is a competitive banking environment consisting of large regional bank branches, state-chartered community banks, credit unions, and other financial institutions. The FDIC Market Share report, as of June 30, 2015, indicated there are 11 financial institutions operating in 19 offices within Kaufman County. FNBK is not one of the 11 financial institutions listed in the report. This is because FNBK's deposits for both branches are combined and reflected in the FDIC Market Share report for Henderson County. Management considers The American National Bank of Texas (ANBT) its main competitor. ANBT, headquartered in Terrell, operates five offices in the county and holds the majority market share of 51 percent. ANBT has a branch in the City of Kaufman, 11 miles north northwest of Kemp. Larger regional banks such as Wells Fargo, Bank of America, and JPMorgan/Chase operate in five offices in the AA and combined, account for 18 percent of the market share. City Bank has one office and accounts for 13 percent of the market share, and Texas Bank and Trust Company has two offices and accounts for another 8 percent market share. Additionally, there are three credit unions operating in the AA.

In conducting the evaluation, a community contact indicated affordable housing project programs as a need in the community and an opportunity for local banks to participate. Additionally, small businesses are a substantial majority, and working capital loans for small businesses are a need in the community to sustain economic growth and development in the area.

Description of the Henderson County Assessment Area

FNBK has delineated a portion of Henderson County as an Assessment Area (AA). Henderson County is not part of the Dallas-Plano-Irving MD. The bank's AA consists of 14 census tracts – eight middle-income, three moderate-income, and one upper-income. The bank's AA previously consisted of 11 census tracts according to the CRA PE dated June 21, 2010. Census tracts increased by three as two of the bank's previous census tracts were divided into two or more as a result of the 2010 Census. The bank's branch in Seven Points, Texas is located in a middle-income census tract (9508) bordered by four middle-income tracts, one moderate-income and one upper-income census tract. According to 2010 Census data, there are no low-income census tracts in Henderson County. According to the 2015 Federal Financial Institution's Examination Council (FFIEC) Report, all 12 middle-income census tracts within Henderson County are classified "Distressed" due to poverty levels. The AA is reasonable and meets the requirements of the regulation. The AA is comprised of whole census tracts, does not arbitrarily exclude low- and moderate-income geographies, and does not reflect illegal discrimination.

The AA is predominately rural and comprised of small cities such as Gun Barrel City, Malakoff, Brownsboro, Chandler, and Seven Points, the location of the bank’s branch. Seven Points has a population of about 1,300. Athens is the largest city in the AA and the county seat with the largest population of about 12,710 according to 2010 Census data. Gun Barrel City is second largest with a population of close to 6,000. Henderson County overall has a population of 78,532, which represents growth of 7.2 percent from a 2000 Census population of 73,277. This population growth is much lower than the state average rate of 25.13 percent and lower than the national average rate of 11.6 percent. According to U.S. Department of Commerce, the county’s population has remained relatively static since 2010, growing a nominal 1.3 percent to 79,545 as of July 1, 2015.

Based on 2010 census data, the AA’s population of 59,733 has a total of 23,811 households and 30,990 housing units, 58 percent of which are owner-occupied. Approximately 20 percent of housing units are occupied rentals and 23 percent vacant. Only 4,316 or 18 percent of AA households are located in moderate-income census tracts (24 percent low-income and 21 percent moderate-income). The AA has a median housing value of \$86,278 and median family income of \$47,306. Just over 18 percent of households are below the poverty level, 28 percent of which are located in moderate-income census tracts. The Bureau of Labor Statistics, as of March 31, 2016, showed unemployment in Henderson County at 4.7 percent, which is slightly above the state average of 4.5 percent and marginally below the national average of 5.0 percent.

The table below summarizes 2010 Census Demographic Data for the Henderson County AA. Again, there are no low-income census tracts in the AA.

Demographic Information for Henderson County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts (CT)/BNAs)	14	0.00	21.43	71.43	7.14	0.00
Population by Geography	59,733	0.00	19.57	76.56	3.87	0.00
Owner-Occupied Housing by Geography	17,944	0.00	14.94	79.22	5.84	0.00
Business by Geography	4,087	0.00	17.96	78.64	3.40	0.00
Family Distribution by Income Level	16,082	0.00	17.00	78.09	4.92	0.00
Households by Geography	23,811	0.00	18.13	77.28	4.59	0.00
Median Family Income		47,306	Median Housing Value	86,278		
HUD Updated Estimated Median Family Income		51,600	Unemployment Rate (March 2016 BLS)	Henderson County 4.7%		
Households Below Poverty Level		18.29%				

Source: 2010 US Census; Dunn & Bradstreet 2014 Business Demographic data; HUD 2015 Estimated Median Family Income

Much of the AA economy is centered on recreational lake activity around the Cedar Creek Lake area. Many small businesses serve the lake communities, including restaurants, hardware stores, grocery stores, boating and recreational vehicle repair and retail stores. According to 2010 Census data, non-farm businesses in the AA total

4,087 of which 94 percent is represented by small businesses with 75 percent employing four people or less. A substantial majority (80 percent) of small businesses are located in middle-income geographies. Most common industries in Henderson County are services (47 percent), retail trade (16 percent), construction (8 percent), finance/insurance/real estate (7 percent), and agriculture/forestry (5 percent). In the AA, employment centers on construction, sales and service, and office and administrative support that include the independent school districts, government offices (city and county), post offices, and various medical/health facilities. The City of Gun Barrel has major retailers such as Wal-Mart and Lowe's Home Improvement.

The AA is a competitive banking environment. The FDIC market share report as of June 30, 2015, indicates that eight institutions operate 25 branches within the bank's AA. FNBK ranks sixth among the total group of banks with a deposit market share of 5.94 percent; however, this is based on total deposits of the bank. First State Bank operates five offices in the area and ranks first with a 31.70 percent deposit market share, and Prosperity Bank, a large regional state-chartered bank operating five offices, ranks second with a 25.80 percent market share. Additionally, there are two credit unions operating in the AA.

In conducting the evaluation, a community contact indicated AA jobs were limited and unemployment remained comparatively high. Henderson County is big in agriculture and blueberry production although the downturn in oil has negatively affected the area in the past two years. Medical manufacturing is growing as a number of companies have relocated into the area. While the lending environment appears to be less restrictive, financial institutions remain reluctant to lend to small businesses or start-ups. Additionally, there is need for more affordable housing programs and small business development.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The Lending Test analysis that follows evaluates the bank's lending activity as described earlier in the scope section. The factors considered are as follows: (1) Loan-to-Deposit Ratio; (2) Lending in the Assessment Area; (3) Lending to Borrowers of Different Income Levels; (4) Geographic Distribution of Loans; and (5) Response to CRA Complaints.

Overall, FNBK's performance under the Lending Test is **Satisfactory**. The review focused on the bank's primary lending products, residential real estate and commercial (business) loans. FNBK's quarterly loan-to-deposit ratio during the evaluation period is reasonable. The level of lending in relation to lending among borrowers of different income levels and businesses of different sizes indicates reasonable penetration. The geographic distribution of loans indicates reasonable dispersion. There were no CRA-related complaints during the evaluation period to evaluate and consider in the lending test.

Loan-to-Deposit Ratio

FNBK meets the standards for satisfactory performance under this criterion. The bank's level of lending is reasonable given its size, financial capacity and performance context. This determination is based on quarterly average LTD ratios during the evaluation period from June 30, 2010 to December 31, 2015. During the evaluation period, the bank's quarterly LTD ratio ranged from a low of 33.75 percent to a high of 50.53 percent. The quarterly average LTD ratio for similarly situated institutions for the same period ranged from 29.39 percent to 99.62 percent. As reflected in the table below, the bank's quarterly average LTD ratio of 42.13 percent compares less favorably to peer banks. This is reasonable given the bank's size and location. Peer banks are much larger and located in the proximity of communities with much larger populations. Other factors that contribute to the lower than peer LTD ratio include low loan demand, increased competition, and the bank does not offer a competitive long-term mortgage or second lien-financing product. Additionally, according to the 2015 Federal Financial Institution's Examination Council (FFIEC) Report, all 12 middle-income census tracts in Henderson County are classified "Distressed" due to poverty levels.

In order to compete with lending programs of other financial institutions and better meet the needs of its communities, the bank instituted a secondary mortgage marketing program in 2016, whereby the bank now offers a variety of longer-term (15, 20, and 30 years) Conventional, FHA, and VA mortgage loans.

Financial Institution	County	Total Assets (\$ in 000's) As of 12/31/2015	Average LTD Ratio
The First National Bank of Kemp	Kaufman	65,614	42.13%
First State Bank of Brownsboro	Henderson	100,193	57.79%
First State Bank (Athens, TX)	Henderson	402,970	66.64%
Citizens State Bank (Tyler, TX)	Smith County	310,965	99.62%
Citizens National Bank (Henderson, TX)	Smith County	1,663,549	56.70%
First National Bank Texas (Killeen, TX)	Bell County	1,412,242	29.39%

Source: FFIEC Consolidated Reports of Condition and Income (Call Report) data gathered from June 30, 2010 to December 31, 2015

Lending in Assessment Area

FNBK meets the standard for satisfactory performance under this criterion. A majority of the bank's loans were originated in the AA. The bank originated 79.14 percent by number and 73.31 percent by dollar amount of its loans during the evaluation period within its AA.

Table 1 below reflects bank lending within the AA by number and dollar volume of loans during the evaluation period.

Table 1 - Lending in Kaufman/Henderson AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	19	67.86	9	32.14	28	1,723	50.09	1,717	49.91	3,440
Home Improvement	5	62.50	3	37.50	8	438	55.51	351	44.49	789
Refinance	4	100.00	0	0.00	4	1,383	100.00	0	0.00	1,383
Businesses	50	86.21	8	13.79	58	1,462	87.65	206	12.35	1,669
Totals	78	79.14	20	20.86	98	5,006	73.31	2,274	26.69	7,281

Source: Sample of commercial loans. Data reported under HMDA.

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

Overall, FNBK's lending activities among borrowers of different income levels and businesses of different sizes reflects reasonable penetration and; therefore, meets the standard for satisfactory performance. This determination is based on an analysis of sampled commercial business loans (58) and residential real estate loans (40) originated from January 1, 2012 through December 31, 2015. For residential loans, we compared the income distribution of the bank's borrowers to the income distribution of individuals and families within the assessment areas using FFIEC median family income levels. For business loans, we compared the bank's distribution of lending to small businesses in relation to small businesses within the AAs using business demographic data.

Considering performance context, borrower distribution of residential loans to low-income borrowers in the Kaufman County AA reflected poor penetration when compared to demographic comparators, though the same measure in the Henderson County AA reflects reasonable penetration. More weight was given to commercial business loan distribution, which indicated excellent penetration in both AAs. The poor performance of borrower distribution of residential loans in the Kaufman County AA is explained in the performance context section of this report ("Description of Assessment Areas"). The bank originated a limited number of residential loans (40) during the evaluation period, compared to 237 business loans. Poverty levels, median housing values, and median family income in the AAs make home affordability difficult for low- and moderate income families. Further, opportunities to lend to low- and moderate-income borrowers are influenced by competition, particularly from institutions with more accessibility to low- and moderate-income areas.

Full-Scope Assessment Area Review - Kaufman County

Residential Real Estate Loans

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 Purchase	24.86	0.00	19.08	30.77	22.47	15.38	33.59	53.85
Home Improvement	24.86	0.00	19.08	0.00	22.47	50.00	33.59	50.00
Refinance	24.86	0.00	19.08	0.00	22.47	0.00	33.59	100.00

Source: HMDA data; 2010 Census Data.

As reflected in Table 2 above, 24.86 percent of AA families are within low-income levels and 19.08 percent are within moderate-income levels. Excellent penetration is demonstrated by the number of home purchase loans (30.77%) originated by the bank to moderate-income borrowers; however, there was poor penetration in the overall distribution of residential real estate loans during the evaluation period. The table reflects the absence of any residential lending to low-income borrowers, and lack of any home improvement and refinanced loans to moderate-income borrowers. The poor penetration among low-and moderate-income (LMI) borrowers can be attributed to several factors. LMI borrowers struggle to meet conventional underwriting requirements. 2010 Census data indicates that more than 12 percent of households in the AA are below the poverty level. Low-income households represent 32 percent of moderate-income census tracts in the AA and 17.5 percent are below the poverty level. Mortgage affordability for most LMI borrowers is made difficult by the AA's median family income of \$59,558 and median housing value of \$116,354. The banking environment is competitive, and the bank historically has not offered a long-term mortgage-financing product. Home improvement loans generally center on second lien financing, and FNBK historically has not offered second lien financing to borrowers unless the bank already holds the first lien. More weight was given to home purchase performance because 70 percent (28 of 40) of the bank's residential lending during the evaluation period was home purchase related.

Business Loans

Table 2A below reflects the distribution of commercial loans among different sized businesses in the Kaufman County AA. Borrower distribution of loans to businesses of different sizes in the AA reflects excellent penetration. One hundred percent (by number of loans and by dollar amount) of the sampled commercial business loans were to small businesses. Small business are businesses with gross annual revenue of \$1 million or less. The bank's performance is considered excellent, as 81 percent of AA businesses are small business.

Table 2A - Borrower Distribution of Loans to Businesses in Kaufman County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	81.08	2.88	16.04	100%
% of Bank Loans in AA by #	100.00	0	0	100%
% of Bank Loans in AA by \$	100.00	0	0	100%

Source: Business loan sample; Dunn and Bradstreet data

Full-Scope Assessment Area Review - Henderson County

Residential Real Estate Loans

Table 2 - Borrower Distribution of Residential Real Estate Loans in Henderson County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20.55	16.67	19.15	33.33	21.13	0.00	39.17	50.00
Home Improvement	20.55	0.00	19.15	66.67	21.13	0.00	39.17	33.33
Refinance	20.55	0.00	19.15	0.00	21.13	0.00	39.17	100.00

Source: HMDA reportable data; 2010 Census data.

In Table 2 above, the borrower distribution of residential loans to low-income borrowers in the AA reflects a reasonable penetration. The bank originated 16.67 percent and 33.33 percent of its home purchase loans during the evaluation period to low-income borrowers and moderate-income borrowers, respectively. Low-income families represent 20.55 percent of the AA while moderate-income families represent 19.15 percent. Two-thirds (66.67 percent) of the bank's home improvement loans were originated to moderate-income borrowers. FNBK originated only 11 residential real estate loans inside the AA during the evaluation period, and only three home improvement and two refinance loans. There were no home improvement loans or refinances to low-income borrowers, and no refinances to moderate-income borrowers.

The absence of this type lending to LMI borrowers can be attributed to mortgage affordability for low- and moderate-income borrowers. 2010 Census data shows 18 percent of households in the AA are below the poverty level. The median family income in the AA is \$47,306, and median family housing is \$86,278. Henderson County is predominately rural and composed of large middle-income census tracts populated by diverse income families. The AA consists of 10 of the 12 middle-income census tracts

in Henderson County, and according to the 2015 Federal Financial Institution’s Examination Council (FFIEC) Report, all 12 middle-income census tracts are classified “Distressed” due to poverty. The banking environment is competitive, and the bank historically has not offered a long-term mortgage-financing product. Home improvement loans generally center on second lien financing, and FNBK historically has not offered second lien financing to borrowers unless the bank already holds the first lien. More weight was given to home purchase performance as 70 percent (28 of 40) of the bank’s residential lending during the evaluation period was for home purchase.

Business Loans

The distribution of loans to small businesses in the AA reflects excellent penetration. As reflected in Table 2 below, 81.26 percent of AA businesses are small business. Small business is defined as those businesses generating revenue of \$1 million or less. Approximately 94 percent (in the number) and 97 percent (in dollar volume) of business loans sampled were originated to businesses inside the AA. Per community contact information, lending to small business or start-ups and more affordable housing programs are needs of the community.

Table 2A - Borrower Distribution of Loans to Businesses in Henderson County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	81.26	3.01	15.73	100%
% of Bank Loans in AA by #	93.94	6.06	0	100%
% of Bank Loans in AA by \$	96.87	3.13	0	100%

Source: Business loan sample; Dunn and Bradstreet data

Geographic Distribution of Loans

FNBK’s geographic distribution of loans meets the standard for satisfactory performance. FNBK’s performance reflects a reasonable dispersion of small business and residential real estate loans within the assessment areas. Given that none of the geographies in either AA are categorized as low-income, little weight was given to this factor in the evaluation of the bank’s performance. More weight was given to borrower distribution of residential real estate and business loans in the case of the Henderson County AA for purposes of our overall lending assessment. Borrower distribution better reflects the bank’s lending activities to LMI borrowers.

Full-Scope Assessment Area Review - Kaufman County

The geographic distribution of loans in the Kaufman County AA exceeds the standard for satisfactory performance. The geographic distribution of residential loans and business loans reflects an excellent dispersion throughout the census tracts of different income levels. The AA does not include any low- or upper-income census tracts. The

AA consists of three moderate-income and three middle-income census tracts. FNBK’s main headquarters is located in the southern portion of the AA in a moderate-income census tract.

Residential Real Estate Loans

Table 3 - Geographic Distribution of Residential Real Estate Loans in Kaufman County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	40.91	69.23	59.09	30.77	0.00	0.00
Home Improvement	0.00	0.00	40.91	50.00	59.09	50.00	0.00	0.00
Refinance	0.00	0.00	40.91	50.00	59.09	50.00	0.00	0.00

Source: Business loan sample; Dunn and Bradstreet data

As reflected in Table 3 above, the geographic distribution of residential real estate loans in this AA reflects an excellent dispersion. In evaluating residential real estate lending, the bank’s performance (based 2012 - 2015 HMDA data) was compared to the percentage of owner-occupied housing units in each census tract income level.

The bank’s lending activity demonstrates an excellent dispersion throughout low- and moderate-income (LMI) census tracts. Almost 41 percent of AA owner-occupied housing is located in moderate-income census tracts, and 69 percent of home purchase loans, 50 percent of home improvement loans, and 50 percent of refinance loans originated by the bank during the evaluation period were in moderate-income census tracts.

Business Loans

Table 3A - Geographic Distribution of Loans to Businesses in Kaufman County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	0.00	0.00	55.42	58.82	44.58	41.18	0.00	0.00

Source: Business loan sample; Dunn and Bradstreet data

The geographic distribution of loans to businesses reflects an excellent dispersion throughout the assessment area. We sampled 17 commercial business loans originated within the AA between January 1, 2012 and December 31, 2015. More than 52 percent of AA businesses are located in moderate-income census tracts. The bank originated 58.82 percent of the business loans sampled in moderate-income census tracts. There are no businesses in low-income census tracts because there are no low-

income census tracts in Henderson County according to 2010 Census data. Overall, these results are indicative of an institution that is satisfactorily serving its assessment area, consistent with the diversity of geographies in the AA.

Full-Scope Assessment Area Review - Henderson County

The distribution of loans among the various geographies within the bank’s assessment area reflected poor performance. The bank’s AA consists of three moderate-income, 10 middle-income, and one upper-income census tracts. Since the AA does not contain any low income census tracts, our analysis focused on loans made in moderate census tracts inside the AA. FNBK is located in the northwestern portion of the AA bordered by middle-income census tracts. The poor dispersion throughout LMI areas is understandable and explained below.

Residential Real Estate Loans

Table 3 - Geographic Distribution of Residential Real Estate Loans in Henderson County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	14.94	0.00	79.22	100.00	5.84	0.00
Home Improvement	0.00	0.00	14.94	0.00	79.22	100.00	5.84	0.00
Refinance	0.00	0.00	14.94	0.00	79.22	100.00	5.84	0.00

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

As reflected in Table 3 above, the geographic distribution of residential loans throughout LMI areas indicates poor dispersion. While almost 15 percent of AA owner-occupied housing units are located in moderate-income census tracts, the bank did not originate any residential loans in these tracts. This poor dispersion is attributable to a number of factors, including the limited number of moderate-income tracts in the AA (three out of a total 14), and the proximity of branch banks to moderate-income census tracts. Most importantly, the distribution of residential real estate loans in the AA is not a true reflection of the bank’s dispersion to LMI borrowers. The AA is predominately rural and composed of large geographies of populations with very diverse income levels. There are no low-income geographies in the AA. Therefore, the vast majority of the low-income and moderate-income households live within middle- and upper-income census tracts. Approximately 74 percent of the low-income households and 73 percent of moderate-income households live within middle-income census tracts. In addition, only about 15 percent of the 5,317 housing units in moderate-income census tracts are owner-occupied. As such, more weight was given to the borrower distribution in our overall lending assessment. It better reflects lending activities to LMI borrowers, irrespective of the geographies in which they live.

Business Loans

Table 3A - Geographic Distribution of Loans to Businesses in Henderson County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	0.00	0.00	17.96	6.06	78.64	94.94	3.40	0.00

Source: Business loan sample; Dunn and Bradstreet data

As reflected in Table 3A above, the geographic distribution of loans to businesses in the AA reflects a poor dispersion in LMI areas. Approximately 18 percent of businesses in the AA are located in moderate-income census tracts. The vast majority are in middle-income areas, which total 10 out of the total 14 census tracts in the AA. Of a sample of 33 commercial business loans, 31 or 95 percent of the number of loans were originated in middle-income census tracts, only two or 6.1 percent were in moderate-income census tracts. There are no low-income census tracts in Henderson County.

The bank’s poor performance in the distribution of loans to businesses in LMI areas is directly attributable to the demographics. The AA is primarily composed of large middle-income census tracts consisting of very diverse income levels. There are 3,321 small businesses located in the AA, and only 544 located in moderated-income census tracts. This would support the limited opportunities the bank has to lend to small businesses in moderate-income areas. We gave more weight to the borrower distribution of loans to businesses of different sizes in the AA, which reflects an excellent penetration throughout the AA. This performance measure is a better reflection of the lending activities of the bank to small businesses irrespective of income-geographic areas.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a 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.

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