



PUBLIC DISCLOSURE

August 01, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Hereford
Charter Number 23692

301 West Third Street
Hereford, TX 79045

Office of the Comptroller of the Currency

5225 South Loop 289
Suite 108
Lubbock, TX 79424-1319

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 First National Bank of Hereford (FNB) has a reasonable quarterly average loan-to-deposit ratio of 75 percent during the evaluation period.
- FNB originated a majority of its loans by number (80 percent) and dollar volume (78 percent) to farms and businesses located within the assessment area (AA).
- FNB's loan portfolio reflects a reasonable penetration among farms and businesses of different sizes within the AA.
- The geographic distribution of farm and commercial loans reflects reasonable dispersion given the bank's performance context, business strategy, and location.

SCOPE OF EXAMINATION

We evaluated FNB under the small bank performance standards, which includes five performance criteria: the loan-to-deposit ratio, lending within the AA, lending to businesses and farms of different sizes, geographic distribution of loans, and responses to CRA related complaints.

To evaluate FNB's lending performance, we selected a random sample of loans based on the bank's primary loan products. Primary loan products are those originated at the highest percentage by number and/or dollar volume of loans. During this evaluation period, primary products consisted of commercial and agriculture loans. To assess performance, we reviewed 48 commercial loans and 52 agriculture loans. All loans originated in 2015, 2016, and year-to-date 2017.

DESCRIPTION OF INSTITUTION

First National Bank of Hereford is a \$152 million community bank located in Hereford, Texas, approximately 50 miles southwest of Amarillo, Texas. FNB is an intrastate bank with three full-service banking locations with associated drive-up facilities. The main bank is located in Hereford, Texas, which is situated in Deaf Smith County. The two branches are located in Hereford, Texas and in Friona, Texas, approximately 25 miles southwest of Hereford in Parmer County. The main bank and both branches provide lobby services Monday through Friday with varying hours. Drive-up facilities are located at all three locations and operate Monday through Friday, with extended hours to 6:00 PM on Friday. The bank is wholly owned by La Plata Bancshares, Inc.

The bank's business strategy is to provide outstanding banking services geared to its customers' needs and the local community. FNB is a community banking organization focused on meeting the specific needs of individual customers and small and medium sized businesses in its market, including agricultural businesses, commercial businesses, and consumers.

As of June 30, 2017, net loans and leases comprised approximately 66 percent of total assets. The bank's primary loan products include agriculture loans (by dollar volume)

and commercial loans (by number). The following table depicts FNB’s loan portfolio composition.

Loan Portfolio Composition as of June 30, 2017				
Loan Type	\$(000)	%	#	%
Agriculture	51,820	51	218	25
Commercial	33,979	33	317	36
Residential Real Estate	13,111	13	67	8
Consumer	2,221	2	273	31
Other	414	1		
TOTAL	101,545	100	875	100

Source: Bank Loan Trial Balance

The bank offers traditional banking services, including a variety of traditional loan and deposit accounts. FNB also offers access to banking services through its website at www.fnbhereford.com. The bank has the ability to meet various credit needs in its community based on its financial condition, the local economy, product offerings, and competition.

The bank received a Satisfactory rating at its April 16, 2012 CRA evaluation. There are no legal or financial circumstances that impede the bank’s ability to help meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

FNB designated two contiguous counties as its AA: Deaf Smith County and Parmer County. Hereford is the largest city and the county seat of Deaf Smith County. Parmer County is the adjacent county and located directly south of Deaf Smith. Farwell is the county seat of Parmer County. Other principal cities located within the AA include Friona, Lazbuddie, and Bovina. Demographic information about the AA is depicted in the table below.

Demographic and Economic Characteristics of Deaf Smith and Parmer Counties	
<i>Population</i>	
Number of Families	7,136
Number of Households	9,352
<i>Geographies</i>	
Number of Census Tracts/BNA	6
% Low Income Census Tracts/BNA	0.0
% Moderate Income Census Tracts/BNA	16.67
% Middle-Income Census Tracts/BNA	83.33
% Upper-Income Census Tracts/BNA	0.0
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	47,817
2016 HUD-Adjusted MFI	\$52,400
<i>Economic Indicators</i>	

Unemployment Rate	3.29
2016 Median Housing Value	77,615
% of Households Below Poverty Level	16.09

Source: 2010 Census data and HUD updated income data

The AA is comprised of 6 contiguous census tracts (CTs) with four CTs in Deaf Smith County and two CTs in Parmer County. Per 2010 US census data, one CT is designated as moderate-income and five CTs are designated middle-income. There are no low-income CTs within the AA. Based on 2017 FFIEC data, tract 9506.00 in Deaf Smith County is now designated upper-income, but is not reflected in demographic data as of yet.

Local economic conditions are stable. About 16 percent of households are below the poverty level. The unemployment rate is 3.3 percent, which is below the Texas and United States rates of 5.0 percent and 4.3 percent, respectively. The local economy is highly dependent on agriculture, especially beef cattle production. The largest, non-agricultural employers within the AA include the local school district and the Caviness Beef Packers plant. The largest employer in Friona is Cargill Meat Solutions. There may be an opportunity to bring in a new pet food cannery, Merrick Pet Foods, which could create approximately 100 entry-level opportunities. These plans are preliminary.

Based on 2010 Census data, the AA has a total population of 29,641. There are 10,849 housing units within the AA, of which 58.3 percent are owner-occupied, 27.9 percent are renter-occupied, and 13.8 percent are vacant.

Competition is strong within the AA. In Hereford, there is a local state bank, one credit union, a national bank branch, a Federal Land Bank office, and branches of a statewide savings association. In Friona, there is a state bank, a national bank, a federal credit union, and an agricultural credit cooperative. The June 30, 2016 FDIC Deposit Market Share Report shows that FNB ranks second in market share in Deaf Smith County with 25.6 percent and ranks third in Parmer County with 16.6 percent.

We contacted a local organization to obtain a community profile and identify opportunities for community development participation by local institutions. The contact believes that local institutions are outstanding in supporting the needs of the local community. There are no significant plans for development within the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit (LTD) Ratio

FNB's LTD ratio is reasonable given the bank's size, financial condition, local competition, and AA credit needs. We based this determination on the bank's quarterly net average LTD ratio of 74.8 percent for the 21 quarters between June 30, 2012 and June 30, 2017. During the evaluation period, the LTD ratio ranged from a low of 64.96 percent to a high of 80.39 percent. The average LTD of similarly situated banks in or adjacent to the AA for the same period was 57.27 percent.

Loan-to-Deposit Ratios		
Institution Name	Total Assets \$ (000's)	Quarterly Average Net Loan-to-Deposit Ratio
First National Bank of Hereford	151,721	74.80
First Bank of Muleshoe	104,548	21.22
Citizens Bank –Amarillo	153,521	79.98
Security State Bank – Farwell	142,106	70.61

Source: Institution Reports of Condition from June 2012 to June 2017

Lending in Assessment Area

FNB extended a majority of its loans (80 percent by number and 78 percent by dollar) to borrowers inside the AA. The breakdown by loan category is illustrated in the following table.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	40	83.3	8	16.7	48	3,235	69.0	1,450	31.0	4,685
Agriculture	40	76.9	12	23.1	52	6,556	83.8	1,269	16.2	7,825
Totals	80	80.0	20	20.0	100	9,791	78.3	2,719	21.7	12,510

Source: Sample of loans used for CRA Performance analysis

Lending to Businesses and Farms of Different Sizes

FNB’s loan portfolio reflects a reasonable penetration among farms and businesses of different sizes within the AA. To perform our analysis, we reviewed revenue information for 40 farm loans and 40 commercial loans originated in the AA during 2015, 2016, and year-to-date 2017.

The percentage of FNB farm loans originated by both number and dollar volume exceeds the ratio of AA farms with gross annual revenues less than or equal to \$1 million. Ninety-eight percent of sampled loans by number and 97 percent by dollar volume were to farms with less than or equal to \$1 million in gross annual revenue. This compares favorably to the demographic of 94 percent.

Borrower Distribution of Farm Loans in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	94.06	3.71	2.23	100%
% of Bank Loans in AA by #	97.50	2.50	0.00	100%
% of Bank Loans in AA by \$	96.95	3.05	0.00	100%

Source: 2017 Loan sample; Dunn and Bradstreet data.

The percentage of the number of FNB commercial loans originated exceeds the ratio of AA businesses with gross annual revenues less than or equal to \$1 million. Eighty-three percent of sampled loans originated to businesses with less than or equal to \$1 million in revenue. Demographic information shows that 78 percent of AA businesses reported revenues less than or equal to \$1 million. The dollar volume of commercial loans originated is slightly below the demographic, which is reasonable.

Borrower Distribution of Commercial Loans in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	77.64	5.61	16.75	100%
% of Bank Loans in AA by #	82.50	17.50	0.00	100%
% of Bank Loans in AA by \$	65.73	34.27	0.00	100%

Source: 2017 Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

FNB's geographic distribution reflects a reasonable dispersion given the bank's performance context, business strategy, and location. To perform our analysis, we reviewed 40 farm and 40 commercial loans originated in the AA during 2015, 2016, and year-to-date 2017.

The percentage of the number of FNB farm loans originated in moderate-income tracts within the AA is slightly below the ratio of AA farms, which is reasonable. No loans were made to farms in the moderate-income tract, compared to the demographic of 2 percent. The moderate-income tract comprises a very small portion of the AA and is located in the City of Hereford. The AA has no low-income tracts. It is important to note that 2010 demographic data did not identify any upper-income tracts within the AA; however, this changed in 2017 when one tract within the AA was changed from middle- to upper-income. This change resulted in 20 percent of sampled loans originated to farms located in an upper-income tract.

Table 3A - Geographic Distribution of Loans to Farms in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farms	0.00	0.00	1.98	0.00	98.02	80.00	0.000.	20.00

Source: 2017 Loan Sample; D & B data.

The percentage of the number of FNB commercial loans originated is slightly less than the ratio of AA businesses in moderate-income tracts, reflecting a reasonable dispersion. Eighteen percent of commercial loans originated in moderate-income tracts, compared to 23 percent of AA businesses located in moderate-income tracts. The AA has no low-income tracts. The moderate-income tract comprises a very small portion of the entire assessment area.

Geographic Distribution of Loans to Businesses in 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
Businesses	0.00	0.00	23.40	17.50	76.60	82.50	0.00	0.00

Source: 2017 Loan Sample; D & B data.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any AA, or 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.