



## **PUBLIC DISCLOSURE**

May 13, 2013

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Farmers National Bank of Newcastle  
Charter Number 14154

722 Broadway  
Newcastle, TX 76372

Office of the Comptroller of the Currency

9003 Airport Freeway  
Suite 275  
North Richland Hills, TX 76180-9127

**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 Farmers National Bank of Newcastle's (Farmers NB) lending performance reflects a satisfactory response to the credit needs of the communities within its assessment area. The following factors support this assessment:

- A substantial majority of Farmers NB's loans were originated within its designated assessment area (AA).
- Farmers NB's distribution of loans reflects excellent penetration to low- and moderate-income households and small businesses, exceeding the standards for satisfactory performance.
- Farmers NB's average loan-to-deposit (LTD) ratio is reasonable and meets the standards for satisfactory performance.
- No consumer complaints regarding Farmers NB's CRA performance were received during this evaluation period.
- An evaluation of the geographic dispersion of loans would not have been meaningful, since there are no low- or moderate- income geographies in the AA.

## SCOPE OF EXAMINATION

Farmers NB qualifies as a Small Bank under the CRA regulation and is thus subject to a Lending Test. The Lending Test evaluates the bank's record of helping to meet the credit needs of its AA through its lending activities.

Our evaluation period covered CRA activities performed since the last CRA examination completed as of November 5, 2007, through March 31, 2013. The scope of our lending test covered loans originated between January 1, 2010 and December 31, 2012. The bank's lending performance will be evaluated against demographic data reported under the 2000 and 2010 Censuses depending on the respective years when the lending activity took place. Lending activity occurring after January 1, 2012 will be analyzed in the context of the 2010 Census data while the figures reported under the 2000 Census will remain in effect for loans originated prior to 2012.

Accordingly, this Performance Evaluation contains tables and analyses performed on loans originated during both periods and will be labeled to reflect the respective periods. Analysis on loans originated prior to January 1, 2012 will be labeled **2010 & 2011 Data** and loans originated after that date will be labeled **2012 Data**.

For our lending test, we reviewed 80 loans from three of the bank's primary lending lines, which are agricultural, commercial, and general consumer loans. All 80 loans in our samples were randomly selected.

## DESCRIPTION OF INSTITUTION

Farmers NB is a small community bank located in Newcastle, Texas. Newcastle is a rural community located in Young County and is approximately 15 miles northwest of Graham, Texas and 90 miles northwest of Fort Worth, Texas. The bank operates from its sole location in the central downtown area of Newcastle. Farmers NB does not own or operate any Automated Teller Machines. Farmers NB is a full-service community bank offering a variety of loan and deposit products. The bank's primary strategy is to operate as a community bank that focuses on meeting the credit needs of its community, including those of low and moderate-income individuals, while at the same time, maintaining prudent lending practices. As of March 31, 2013, Farmers NB had total assets of \$39 million, loans of \$14 million, and deposits of \$28 million. The bank's loan portfolio breaks down as follows:

<b>Loan Portfolio Composition as of March 31, 2013</b>		
<b>Loan Category</b>	<b>\$(000)</b>	<b>%</b>
Ag Production & Ag Related Loans	4,025	26.56%
Commercial & Industrial Loans	2,521	16.63%
Residential Real Estate Loans	2,503	16.51%
Commercial Real Estate	2,089	13.78%
Farmland Real Estate Loans	1,640	10.82%
Consumer Auto Mobile Loans	1,208	7.97%
General Consumer Loans	777	5.13%
Other Loans	393	2.59%
<b>Total</b>	<b>\$15,156</b>	<b>100.00%</b>

*Source: March 31, 2013, Report of Condition*

Farmers NB has designated Young County as its AA. The bank's AA encompasses four census tracts (CTs), all of which are middle income CTs.

Farmers NB is owned by a small group of individuals. Farmers NB is the sole financial institution in the Newcastle community. Primary competition stems from state, regional and national financial institutions located in the neighboring communities of Graham, Olney and Throckmorton.

The most recent CRA examination was performed as of November 5, 2007, and resulted in a satisfactory rating. The bank has no impediments, legal or otherwise, which would hinder its efforts to help meet the credit needs of its AA.

A community contact interviewed during our CRA evaluation disclosed that Farmers NB makes a tremendous effort to meet the credit needs of its community and is involved in several development activities geared towards developing the AA. The contact identified the most pressing credit needs of the community as affordable housing, small business development loans and general consumer loans.

## DESCRIPTION OF ASSESSMENT AREA(S)

Farmers NB defines its AA primarily as Newcastle and the surrounding communities within Young County. Newcastle actually serves as a bedroom community to Graham (15 miles to the southeast) and Olney (13 miles to the north). Newcastle is a rural community and is primarily dependent on the agricultural and oil and gas industries. The bank's AA complies with the legal requirements of the CRA regulation and contains four contiguous CTs, all of which are middle-income CTs. The AA is not part of any Metropolitan Statistical Area, does not arbitrarily exclude low- or moderate-income geographies in defining its AA and meets the legal requirements of the regulation. Specific demographic and economic data for this AA are detailed below.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF FARMERS NB's ASSESSMENT AREA</b>		
	<b>2000 Census Data</b>	<b>2010 Census Data</b>
<b>Population</b>		
Number of Families	5,118	5,110
Number of Households	7,161	7,484
<b>Geographies</b>		
Number of CT's	4	4
% Low-Income CT's	0	0
% Moderate-Income CT's	0	0
% Middle-Income CT's	4	4
% Upper-Income CT's	0	0
% N/A-Income CT's	0	0
<b>Median Family Income (MFI)</b>		
Weighted Average MFI for Young County	\$36,425	\$50,915
HUD-Adjusted MFI	\$48,600	\$48,600
<b>Economic Indicators</b>		
Unemployment Rate	3.04%	2.55%
Median Housing Value	\$48,196	\$76,334
% of Households Below Poverty Level	15.32%	16.27%

*Source: 2000 & 2010 U.S. Census data.*

Based on 2010 U. S. Census data, the AA area has a total population of 18,560. There are 8,624 housing units in the AA, of which 59.86 percent are owner-occupied, 26.82 percent are renter-occupied and 13.22 percent are vacant. Approximately 26 percent of the families in the AA are considered low-income. Moderate-income families

approximate 18 percent of the population, and middle- and upper-income families comprise 16 percent and 40 percent of the population, respectively.

Based on 2012 Business Geo-demographic Data, there are 2,503 businesses in the AA, of which 70 percent reported gross annual revenue less than or equal to \$1 million and 2 percent reported gross annual revenue greater than \$1 million. Because reporting is voluntary, 28 percent or 1,495 businesses did not report revenues.

Farming, oil & gas and the economies of the surrounding communities of Olney and Graham are the primary economic drivers in Newcastle. With the exception of widespread drought conditions in Texas that impacted farmers in the area over the last couple of years, Newcastle's economy remains relatively insulated from trends in the macro economy and economic conditions have mostly remained stable. The primary credit needs of the AA center in affordable housing, small business development loans and general consumer needs. Leading employers in the area include the Newcastle Independent School District and the locally owned businesses in the area. Also, a large proportion of the populace works in the surrounding communities of Graham and Olney.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Farmers NB's performance in meeting the credit needs of its AA meets the standards for satisfactory performance. Our conclusion is based on a reasonable loan-to-deposit ratio, a significant portion of the bank's lending activity originating within its assessment area, and an excellent borrower distribution of loans within the bank's AAs.

To assess Farmers NB's performance under the lending test, we reviewed a total of 80 loans from three of the bank's primary lending lines. Please refer to the **Scope of Examination** section for details on our scoping process. In supporting our conclusion, equal weight was given to each of the lending lines reviewed and the LTD ratio.

### Loan-to-Deposit Ratio

Farmers NB's LTD ratio is reasonable and meets the standards for satisfactory performance when the bank's size, financial condition, and credit needs in its assessment area are taken into consideration.

The LTD ratio measures the extent to which the bank has returned the deposits it has acquired to the community in the form of loans. The average of this ratio for each quarter-end since the previous CRA examination is used to determine performance.

Over the 22 quarters since the prior exam, Farmer NB's LTD ratio averaged 48.34 percent. During the evaluation period, Farmer NB's LTD ratio ranged from a high of 62.14 percent as of the fourth quarter 2007 to a low of 39.51 percent as of the second quarter of 2012. The average LTD ratio for Farmers NB at the last CRA examination was 52 percent. The average LTD ratios for other institutions in the AA, for the same period, ranged from 32.59% to 72.64%. Although Farmers NB is the sole financial institution in the Newcastle community, it does face competition from other financial institutions operating in neighboring communities within the assessment area.

### Lending in Assessment Area

Farmers NB's lending in its AA exceeds the standards for satisfactory performance. A substantial majority of the loans in our respective samples during both evaluation periods were made inside the AA. As depicted in the table in the following table on the next page, 91.25 percent of the number and 79.23 percent of the dollar amount of all loans reviewed were originated inside Farmers NB's AA.

<b>Table 1 - Lending in AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
<b><i>2010 -2011 Data</i></b>										
General Consumer Loans	19	95.00	1	5.00	20	153,016	98.10	2,937	1.90	155,953
Commercial & Ag Loans	17	85.00	3	15.00	20	428,152	91.90	37,563	8.10	465,715
<b><u>2010 -2011 Totals</u></b>	36	90.00	4	10.00	40	581,168	93.49	40,500	6.51	621,668
<b><i>2012 Data</i></b>										
General Consumer Loans	18	90.00	2	10.00	20	80,847	92.50	6,583	7.50	87,430
Commercial & Ag Loans	19	95.00	1	5.00	20.00	307,423	59.70	207,117	40.30	514,540
<b><u>2012 Totals</u></b>	37	92.50	3	7.50	40	388,270	64.50	213,700	35.50%	601,970
<b>Grand Total Reviewed</b>	<b>73</b>	<b>91.25</b>	<b>7</b>	<b>8.75</b>	<b>80</b>	<b>969,438</b>	<b>79.23</b>	<b>254,200</b>	<b>20.77%</b>	<b>1,223,638</b>

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

Overall, Farmers NB's distribution of loans sampled reflects an excellent penetration among borrowers of different income levels and businesses of different sizes and exceeds the standards for satisfactory performance.

#### ***Consumer Loans***

Farmers NB's overall distribution of consumer loans to households of different incomes is excellent. Specifically, Farmers NB's lending penetration to low- and moderate-income households is excellent. As reflected in the table below, the overall percentage of Farmers NB loans made to households in these income-brackets exceeds the percentage of low- and moderate-income households in the AA.

Farmers NB willingness to meet the credit needs in its AA is also evidenced by the bank's willingness to originate low dollar consumer loans. Within our sample and the loan trial, we identified loans amounts which were lower than \$500. There is no minimum loan amount in the loan policy.

Table 2 - Borrower Distribution of General Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
<b>2010 -2011 Data</b>	22.96	50.00	17.78	25.00	18.17	10.00	41.10%	10.00
<i>(Income information was not available on 5% of the loans sampled.)</i>								
<b>2012 Data</b>	26.22	50.00	18.28	5.00	15.69	20.00	39.82	0.00
<i>(Income information was not available on 25% of the loans sampled.)</i>								

Source: Loan samples and 2000 & 2010 U.S. Census data

**Commercial & Agricultural-Related Loans**

Farmers NB's distribution of loans to businesses of different sizes is excellent and exceeds the standards for satisfactory performance. Small businesses are categorized as businesses with annual gross revenues less than \$1 million. The distribution of the loans in our samples for the years 2010 - 2011 & 2012 demonstrated the bank's strong efforts to lend to small businesses overall.

Table 2A - Borrower Distribution of Loans to Businesses in Young County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
<b>2010 -2011 Data</b>				
% of AA Businesses	70.18	2.23	27.59	100%
% of Bank Loans in AA by #	85.00	0.00	0.00	100%
% of Bank Loans in AA by \$	91.90	0.00	0.00	100%
<b>2012 Data</b>				
% of AA Businesses	75.02	3.11	21.87	100%
% of Bank Loans in AA by #	95.00	0.00	0.00	100%
% of Bank Loans in AA by \$	59.70	0.00	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

**Geographic Distribution of Loans**

A review of the distribution of loans by geography was not performed, as the analysis would not have been meaningful. There are no low- or moderate-income CTs in the AA. We did not identify any conspicuous gaps in lending performance within the middle- and upper-income CTs. Farmer's NB is lending in all of the CTs within its AA.

### **Responses to Complaints**

There have been no consumer complaints relating to Farmers NB's CRA performance during the evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

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

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