



PUBLIC DISCLOSURE

April 21, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The State National Bank of Big Spring
Charter Number 12543
901 South Main Street, Big Spring, TX 79720

Office of the Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289, Suite 108, Lubbock, TX 79424

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 Needs to Improve.

The Lending Test is rated: Needs to Improve

The Community Development Test is rated: Needs to Improve

The State National Bank of Big Spring (SNB) needs to improve its record of meeting community credit needs based on the following:

- SNB's net loan-to-deposit (LTD) ratio is unreasonable with a quarterly average of 12 percent. This does not meet the standard for satisfactory performance based on the bank's performance context and lending opportunities within the assessment area (AA).
- A majority of SNB's loans are within the bank's AA. Approximately 90 percent of the number and 80 percent of the dollar volume of loans were made within the AA.
- The lending performance to businesses of different sizes and to individuals of different income levels reflects reasonable penetration. However, low lending volumes detract from the results of our testing.
- The geographic distribution of commercial and consumer loans is reasonable. Low lending volumes detract from the results of our testing, which reflected excellent dispersion in moderate-income census tracts.
- SNB's community development (CD) performance demonstrates a poor responsiveness to the needs of its AA through CD loans, qualified investments, and CD services.

SCOPE OF EXAMINATION

We evaluated SNB using the Intermediate Small Bank (ISB) evaluation procedures, which include Lending and Community Development Tests. The Lending Test evaluates the bank's record of meeting the credit needs of its AA through lending activities. The Community Development Test evaluates the bank's responsiveness to the identified needs in its AA through lending, qualified investments, and services.

The Lending Test evaluates the bank's primary loan products, which are commercial and consumer loans. We reviewed a random sample of 30 loans for each primary product originated between January 1, 2012 and December 31, 2013. Loans originated during this period were combined and evaluated using 2010 Census data.

The evaluation period for the Community Development Test uses information since the previous CRA evaluation period, February 14, 2011, through April 21, 2014.

DESCRIPTION OF INSTITUTION

SNB is a \$330 million community bank headquartered in Big Spring, Texas, which is approximately 100 miles south of Lubbock, Texas. SNB is a wholly owned subsidiary of SNB Financial, Inc., a single-bank holding company. As of December 31, 2013, SNB Financial, Inc. had total assets of \$336 million. SNB is an intrastate bank with its main office located in Big Spring, Texas, and two branches located in Lamesa and O'Donnell, Texas. The branches in Big Spring and Lamesa are located in moderate-income census tracts. The O'Donnell branch is located in a middle-income census tract.

As of December 31, 2013, SNB had total assets of \$330 million, with net loans and leases comprising 10 percent of this total. The bank's primary loan products include commercial loans (by dollar volume of loans) and consumer loans (by number of loans). The following table shows the composition of loan portfolio as of December 31, 2013.

Loan Portfolio Composition		
Loan Category	\$ (000)	%
Commercial and Industrial	14,747	42.57%
Commercial Real Estate and Construction	6,147	17.74%
Agricultural Real Estate and Production	9,680	27.95%
Consumer	3,096	8.94%
Residential Real Estate	870	2.51%
Other	101	0.29%
TOTAL	\$34,641	100.0%

The bank provides traditional banking services including a variety of loan and deposit accounts. Bank lobby services at the main bank and both branches are provided Monday through Friday from 9:00 AM to 4:00 PM. Drive-up facilities are located at all three locations and operate Monday through Friday from 8:30 AM to 4:00 PM. On Fridays, the drive up facility at the main bank has extended hours until 6:00 PM. SNB also offers online banking at www.statenb.com. The online banking service provides access to account information, online transfers between accounts, and bill pay services.

SNB's self-prepared performance context states the bank's business strategy is "to safely meet the financial service needs of the citizens and businesses within our trade territory, while at the same time providing a reasonable investment return for our shareholders."

The bank received a Satisfactory rating at the February 14, 2011 CRA evaluation. SNB has no legal or financial circumstances that would impede the bank's ability to help meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

SNB has designated Howard, Dawson, and Lynn counties as its AA. Big Spring is the largest city and the county seat of Howard County. Dawson and Lynn counties are located directly south of Lubbock. Lamesa is the largest city and the county seat of Dawson County. O’Donnell is a small community in Lynn County. Specific demographic data and economic data for the AA are listed in the following table.

Demographic and Economic Characteristics	
<i>Population</i>	
Number of Families	12,325
Number of Households	17,669
<i>Geographies</i>	
Number of Census Tracts	17
% Low-Income Census Tracts	0.00
% Moderate-Income Census Tracts	29.41
% Middle-Income Census Tracts	58.82
% Upper-Income Census Tracts	11.76
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$48,542
2012 HUD-Adjusted MFI	\$49,300
2013 HUD-Adjusted MFI	\$50,500
<i>Economic Indicators</i>	
Unemployment Rate	3.02%
2010 Median Housing Value	\$55,181
% of Households Below Poverty Level	15.56

Source: 2010 U.S. Census data and HUD updated income data.

The AA consists of three contiguous counties and does not arbitrarily exclude any low- or moderate-income geographies. The AA has 17 census tracts, of which 5 are moderate-income and none are low-income. Of the 10 middle-income census tracts, 5 in Howard County and 2 in Dawson County are designated as distressed due to poverty levels.

Based on 2010 Census data, the AA has a total population of 54,760. Approximately 22 percent of the families in the AA are considered low-income. Moderate-income families are 18 percent of families, while middle- and upper-income families comprise the remaining 60 percent.

Economic conditions are very good. SNB’s economy is centered in agriculture, energy production, and government entities. The agriculture industry is driven primarily by dry-land cotton farming. Howard County is 85 percent dry land, with Dawson and Lynn Counties having more irrigated cotton farming. Secondly, cotton ginning, chemical/seed companies, and retail equipment support the local cotton industry. Oil and gas production has recently played an increasing economic role in the AA. The development of hydraulic fracturing, mineral lease bonuses, royalties, and high-paying energy-related jobs have created an influx of money and growth in the AA. The largest non-agricultural employers within the AA include local school districts, Veterans Administration Hospital, and Big Spring State Hospital.

Banking competition is strong and includes national, regional, and community banks, as well as credit unions and finance companies. As of June 30, 2013, SNB's deposit market share in the AA was 23.2 percent, ranking first among 11 banks. In Howard County, where SNB has its most substantial presence, the bank's deposit market share is even more pronounced at 38.5 percent, ranking first among seven banks. There are also seven credit unions chartered in the bank's AA, ranging in asset size from \$700 thousand to \$112 million. They collectively represent \$235 million in assets and \$144 million in deposits, on average well below the size of SNB and its other major commercial bank competitors.

We interviewed two business and economic leaders in the community to determine a community profile and identify opportunities for participation by local financial institutions. The contacts stated that many bankers in the area provide financial knowledge and assistance to local economic groups and other organizations. The contacts also stated that the local economy is strong, with a lot of new housing and business activity generated by the oil and gas production.

While the contacts did not identify specific credit needs not being met in the community, several other sources have identified such needs. The city of Big Spring is in the process of re-vamping its Master Plan to address the growth the city is experiencing, and plan for the growth it expects will continue. Big Spring residents, at a recent meeting to discuss the plan, expressed the need for more housing, revitalization of downtown, and the need to improve infrastructure. In addition, due to the local housing shortage, local school districts are finding it hard to attract and retain personnel.

As mentioned above, lending and community development opportunities are readily available locally and in the broad regional area. In addition, transportation improvements to the short-line rail system have created opportunities for fleet businesses. The Big Spring Port-to-Plains Alliance, which is a corridor of nine states between the oil patches in Western Canada and Texas, has generated investment opportunities and job growth. Since 2007, the Big Spring Economic Development Corporation has been involved in 20 investments totaling \$7.4 million. These projects have generated \$21 million in payroll, creating 762 jobs and retaining 195 jobs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending Test

SNB's performance under the Lending Test needs to improve. Lending volume is unreasonable, and is the major factor in this rating. Of the loans originated, a majority are located within the AA. Borrower and geographic distribution are reasonable, but the low level of lending detracts from the significance of the lending dispersions.

Loan-to-Deposit Ratio

The LTD ratio is unreasonable given the bank's size, financial condition, and AA credit needs. This determination is based on the quarterly average net LTD ratio from March 31, 2011 through December 31, 2013 of 12.38 percent, which is a decline from the last evaluation at 21.23 percent. During the evaluation period, SNB's net LTD ratio ranged from a low of 10.74 percent to a high

of 15.77 percent. The average net LTD ratio of similarly situated banks within the AA for the same period was 49.27 percent. Our analysis of the seven credit unions chartered in the AA showed an average net LTD ratio of 48 percent, which is similar to that of the commercial banks.

We identified no internal factors prohibiting the bank from lending. SNB has sufficient resources and capacity to lend, but the Board’s very conservative corporate risk tolerance is one of the primary reasons for the low loan-to-deposit ratio. The bank has failed to take advantage of the lending opportunities known to exist within its AA. As an example of the Board’s conservative nature, 90 percent of the balance sheet is centered in cash and very short-term, low-yielding, U.S. Treasury and Agency securities.

We noted several external factors affecting the bank’s LTD. Retail deposits remain high after a “flight to safety” in 2008 and increases in personal wealth from oil and gas leasing and drilling in the Cline Shale formation. On the lending side, the drought is adversely affecting the amount and duration of agricultural loans and competition for originating all types of loans is high. While these factors certainly affect SNB’s LTD ratio, they also affect the LTD ratios of other area banks in a generally similar fashion.

The quarterly average LTD ratio for each similarly situated bank in or contiguous to the AA is listed below. Please note that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$000s as of 12/31/13	Average Net Loan-to-Deposit Ratio
Lamesa National Bank	309,725	30.29
State National Bank of Big Spring	330,232	12.38
Western Bank	172,739	68.24

Source: Institution Reports of Condition from March 2011 to December 2013

Lending in Assessment Areas

A majority of SNB’s primary loan products were made inside the bank’s AA. To assess performance, we sampled 30 business loans and 30 consumer loans originated between January 1, 2012 and December 31, 2013. Our analysis determined that 90 percent of the number of loans and 80 percent of the dollar amount of loans in the sample were originated within the bank's AA. Results by loan category are depicted in the following table.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Businesses	25	83.33	5	16.67	30	2,617	78.90	700	21.10	\$3,317
Consumer	29	96.67	1	3.33	30	178	99.44	1	0.56	\$179
Totals	54	90.00	6	10.00	60	2,795	79.95	701	20.05	\$3,496

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

Overall, borrower distribution is reasonable. However, low lending volumes detract from the results of our testing (summarized below) as the bank is not reaching many small businesses or low- and moderate-income households.

The distribution of loans to businesses reflects a reasonable penetration among businesses of different sizes. Borrower distribution is reasonable, with 64 percent of commercial loans by number and 49 percent by dollar amount originated to businesses with revenues less than \$1 million. This is slightly below demographic data showing that 69 percent of the area’s businesses are considered small. The following table shows the distribution of loans.

Borrower Distribution of Loans to Businesses				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68.64	3.51	27.86	100%
% of Bank Loans in AA by #	64.00	36.00	0.00	100%
% of Bank Loans in AA by \$	49.12	50.88	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

The distribution of consumer loans to borrowers reflects excellent penetration among borrowers of different income levels. The borrower distribution of consumer loans is excellent, as loans to low-income borrowers (45 percent) and moderate-income borrowers (28 percent) exceed demographic data for both low- and moderate-income households. The following table shows the distribution of loans.

Borrower Distribution of 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
Consumer Loans	24.29	44.83	19.12	27.59	14.93	13.79	41.66	13.79

Source: Loan sample; 2010 U.S. Census data.

Geographic Distribution of Loans

Overall, geographic distribution is reasonable. Low lending volumes detract from the results of our testing (summarized below) as the bank is not originating much commercial loan or consumer loan volume in moderate-income census tracts.

The geographic dispersion of loans to small businesses reflects excellent dispersion. SNB’s commercial lending in moderate-income (44 percent) census tracts substantially exceeds demographic data for AA. The following table summarizes the distribution of loans.

Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Businesses	0.00	0.00	30.75	44.00	53.97	28.00	15.28	28.00

Source: Loan sample; Dun and Bradstreet data.

The geographic dispersion of loans to borrowers reflects excellent dispersion. SNB’s lending in moderate-income (31 percent) census tracts exceeds demographic data for AA. The following table summarizes the distribution of loans.

Geographic Distribution of Consumer Loans								
Census Tract 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
Consumer Loans	0.00	0.00	26.91	31.03	59.79	51.72	13.31	17.24

Source: Loan sample; 2010 U.S. Census data.

Responses to Complaints

There have been no complaints related to the bank’s CRA performance during this evaluation period, which has a neutral effect on the bank’s overall performance.

COMMUNITY DEVELOPMENT TEST

SNB’s performance under the Community Development Test needs to improve. SNB shows poor responsiveness to CD needs in its AA through CD loans and qualified investments, and adequate responsiveness to CD needs in its AA through CD services.

Number and Amount of Community Development Loans

The level of CD lending reflects a poor responsiveness to CD needs of the AA. SNB originated 12 qualifying CD loans during the evaluation period totaling \$3.9 million. One large loan accounts for 64 percent of this total; SNB worked with the Big Spring Economic Development Corporation to provide financing for a new manufacturing facility. The borrower selected a location that revitalized an existing dilapidated industrial site in Howard County. This manufacturing company increased area employment, including for low- and moderate-income employees by adding 50 jobs and providing onsite job training.

The majority of other CD loans were originated to borrowers to rehabilitate affordable housing, specifically renovation of rental properties. SNB fulfilled its CD loan obligation through its normal course of business, i.e., through its normal market niche and following its approved business plan. There was minimal activity with entities/non-profits actively engaged in traditional CD activities.

Number and Amount of Qualified Investments

The level of qualified investments reflects a very poor responsiveness to CD needs of the AA. The bank has a large investment portfolio and has significant capacity to make CD investments. However, during the evaluation period SNB made no qualified investments and made 29 grants and donations totaling \$10 thousand within its AAs. As noted above, given the strong economy and growth in the AA, there are many CD investment opportunities.

Extent to Which the Bank Provides Community Development Services

The level of CD and retail services reflects an adequate responsiveness to CD needs in the AA. During the evaluation period, five bank employees provided financial services to seven qualified CD organizations. SNB officers and employees provide technical assistance through participation on finance committees of local organizations that provide CD services. Examples include:

Big Spring Main Street, Inc. (BSMS)

A SNB employee serves on the Community Board of BSMS. BSMS is a non-profit organization that seeks to revitalize downtown Big Spring and offers loans to startup businesses that would provide jobs. The target startup businesses typically do not have a banking relationship. Loans provided by BSMS come from government grants.

United Way Allocation Committee

A SNB employee serves on the Community Board of United Way. United Way provides funding to 17 agencies in Howard County that provides services to the whole community, including low- and moderate-income individuals. In 2014, 57 percent of funds were allocated to agencies that had mission statements of helping qualifying children and adults.

Retail services are readily accessible. SNB operates three full service branches. Two branches are located in moderate-income census tracts (Big Spring and Lamesa), and one is located in a distressed middle-income census tract (O'Donnell).

Responsiveness to Community Development Needs

Considering the poor responsiveness of CD loans and investments, SNB demonstrated poor responsiveness to CD needs in its AA.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 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 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.