



Office of the
Comptroller of the Currency
Washington, DC 20219

SMALL BANK

PUBLIC DISCLOSURE

May 7, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank in Falfurrias
Charter Number 14072

200 S. St. Mary Street
Falfurrias, TX 78355-3629

Office of the Comptroller of the Currency

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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, and should not 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.

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Overall CRA Rating

The Lending Test is rated: Satisfactory.

First National Bank in Falfurrias (FNB or bank) has a **satisfactory** record of meeting the credit needs of its community. Factors supporting the bank's rating include:

- The bank's average loan-to-deposit (LTD) ratio is reasonable.
- A majority of the bank's loans originated within its assessment area (AA).
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes
- The bank's geographic distribution of loans reflects reasonable dispersion throughout the AA.
- There is no evidence of illegal discrimination.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing).

Home Mortgage Loans: Such loans include home purchase, home improvement, and refinancing, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number, and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the Central County or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

FNB is a community bank with one office located in Falfurrias, Texas, the county seat of Brooks County. The bank is locally owned and operated. An automated teller machine (ATM) is located on its premises, but there are no ATMs located off-site. FNB's assessment area (Brooks/Jim Wells Counties Non-MSA AA, or AA) remains unchanged, consisting of both census tracts (CTs) in Brooks County and the southernmost CT in Jim Wells County, the neighboring county to the north.

Based on the bank's financial condition, local economy, product offerings, and prior performance, the bank has the ability to meet the needs of the community. FNB offers traditional loan and deposit services. FNB offers online banking services that allow customers to access account information and process various transactions. As of December 31, 2017, tier 1 capital totaled \$7.8 million and assets totaled \$81 million, including \$19 million in loans, representing 24 percent of total assets. FNB's loan portfolio is composed primarily of consumer and commercial loans. The bank's business strategy is to continue originating similar type of loans and offering traditional products and services. The following table illustrates the bank's lending activity, as of December 31, 2017.

Loan Category	Volume (\$000s)	% of Total Loans
Construction Loans	2,120	11
Owner Occupied NFNR	4,604	24
Commercial & Industrial	5,596	29
Consumer Loans	4,549	24
Other Loans	2,202	12
Total Loans	19,071	100

Source: December 31, 2017 Call Report Data.

The previous CRA Performance Evaluation, dated March 19, 2012, reflected a satisfactory rating. There are no legal or other impediments that limit the bank's ability to meet the community's credit needs. Additional demographic, and economic characteristics of FNB and the AA can be found in **Appendix B: Community Profiles for Full-Scope Areas**.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The Office of the Comptroller of the Currency (OCC) evaluated FNB's CRA performance using interagency Small Bank procedures, consistent with the provisions set forth in 12 CFR 25 Appendix A. The evaluation period was from January 1, 2015 to December 31, 2017. The OCC analyzed loan originations during this period and identified commercial and industrial (C&I), owner occupied non-farm non-residential (NFNR), and loans to individuals (consumer) as FNB's primary loan products.

To evaluate FNB's performance in respect to the lending test, examiners sampled a total of 113 loans originated during the evaluation period. The sample included 58 consumer loans, all 11 NFNR loans, and 44 C&I loans. In evaluating the bank's LTD ratio, examiners used a comparison of similarly situated banks operating in vicinity of FNB, using quarterly average LTDs over the prior 24 quarters since the prior CRA evaluation. Conclusions for income distribution and geographic dispersions were based on statistical samples of C&I and NFNR loans (commercial loans), and consumer loans originated in the AA. Commercial and consumer loans were analyzed separately for 2015-2016 and 2017 due to different demographic data being in place for the two time periods. Examiners also interviewed a community contact to help determine the needs of the community, lending opportunities, and the bank's performance in meeting the needs of the community. Additional information about the community contact can be found in **Appendix B: Community Profiles for Full-Scope Areas**.

Data Integrity

FNB does not report HMDA data, so the OCC did not perform a HMDA data integrity review. The OCC validated data integrity through analysis of the loan files as a part of the loan review. No issues were identified and the bank's data was found to be reliable.

Selection of Areas for Full-Scope Review

The OCC performed a full-scope review of the bank's only AA. The AA remains comprised of the same three CTs as the prior CRA examination. However, CT 9502 of Brooks County was considered a middle income distressed CT in analyzing 2015 and 2016 loan originations, and considered a moderate income CT in analyzing 2017 loan originations due to a change in census data. See **Appendix A: Scope of Examination** and **Appendix B: Community Profiles for Full-Scope Areas** for more information.

Ratings

The bank's overall rating is based on the full scope review of FNB's only AA. In determining the lending test ratings consideration was given to changes in the AA during the review period.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) 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. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution [or any affiliate whose loans have been considered as part of the institution's lending performance] has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the lending test is **satisfactory**. The bank's LTD ratio is reasonable when compared to similarly situated institutions. A majority of the loans originated during the evaluation period were made inside the AA. Additionally, the distribution of loans to borrowers and businesses of different income levels and geographically is reasonable. The bank received no CRA-related complaints during this evaluation period.

Loan-to-Deposit Ratio

FNB's average quarterly LTD ratio is reasonable given the bank's asset size, competition, financial condition, and lending opportunities in the AA. Over the previous 24 quarters ending December 31, 2017, FNB's quarterly average LTD ratio was 26 percent. This is a slight increase from the previous exam average of 25 percent. FNB's LTD ranged from a low of 21 percent to a high of 30 percent. The OCC noted that FNB's LTD was significantly lower than the two other banks operating in Brooks County, Texas Regional and Greater State Bank whose LTD ratios were 65 percent and 78 percent respectively. However, these institutions were not considered similarly situated to FNB as they have numerous locations outside the AA, including MSAs. These banks only have a 4 percent market share each, of deposits in Brooks County.

Examiners considered First National Bank of Hebbronville (FNBH) as a similarly situated institution in neighboring Jim Hogg County. FNBH has a similar asset size, number of locations, lending opportunities, and geographic presence. FNBH's quarterly average LTD ratio for the same period is 27 percent, with a high of 36 percent, and a low of 17 percent. FNB's LTD ratio is reasonable in comparison to the similarly situated FNBH.

Institution	Total Assets (\$000s)	Average LTD Ratio
FNB Falfurrias	78,351	26%
Texas Regional Bank	847,660	65%
Greater South Texas Bank	74,726	78%
FNB Hebbronville	103,821	27%

Source: December 31, 2017 Call Report Data.

Lending in Assessment Area

A majority of loans are made inside the AA. FNB makes the majority of loans by number inside the AA, with the majority of loans by dollar occurring outside the AA. This is a result of a small number of high dollar commercial loans made outside the AA. Of all loans reviewed the bank extended 61 percent by number, and 12 percent by dollar volume to borrowers inside the AA.

Table 1 - Lending in FNB AA

Loan Type	Number of Loans				Dollars of Loans				Total \$000s	
	Inside		Outside		Total	Inside		Outside		
	#	%	#	%		\$000s	%	\$000s	%	
Individual	45	78	13	22	58	440	78	127	22	567
NFNR	2	18	9	82	11	253	5	4,978	95	5,231
C&I	22	50	22	50	44	471	12	3,628	88	4,099
Totals	69	61	44	39	113	1,164	12	8,733	88	9,897

Source: Loan sample.

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

The distribution of loans in FNB's AA reflects reasonable penetration among borrowers of different incomes and businesses of different sizes.

Commercial Loans

The distribution of commercial loans in FNB's AA reflects excellent penetration among businesses of different sizes. The commercial sample included two primary loan products consisting of C&I, and NFNR loans. FNB originated eight NFNR loans in 2017, two in 2016, and one in 2015. C&I loan originations totaled 16 for 2017, 13 for 2016, and 15 in 2015. Only loans originated inside the AA were used in determining penetration levels. FNB originated eight commercial loans totaling \$268 thousand, within the AA in 2017, and 16 commercial loans totaling \$457 thousand within the AA in 2015 and 2016.

FNB has demonstrated excellent penetration to small business with revenues under \$1 million. The following tables show the bank's strong record of lending to small businesses. This record is reflected in both the 2017, and 2015-2016 samples.

Table 2A - Borrower Distribution of Loans to Businesses in FNB's AA 2017

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69	5	26	100%
% of Bank Loans in AA by #	63	0	38	100%
% of Bank Loans in AA by \$	79	0	21	100%

Source: Loan sample; Dun and Bradstreet data.

Table 2A - Borrower Distribution of Loans to Businesses in FNB's AA 2015-2016

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72	5	23	100%
% of Bank Loans in AA by #	94	0	6	100%
% of Bank Loans in AA by \$	99	0	1	100%

Source: Loan sample; Dun and Bradstreet data.

Consumer loans

A reliable conclusion could not be drawn as the bank did not collect income information on the majority of consumer loans sampled. The consumer loan portfolio is comprised of small dollar loans, evidenced by high, average, and low balances of loans sampled of \$50 thousand, \$10 thousand, and \$1 thousand, respectively. Of the 45 consumer loans originated within the AA during the evaluation period, income data was only available for 17 loans, or 38 percent. However, 76 percent, or 13 of the 17 loans with available income data were originated to low- and moderate-income (LMI) borrowers.

Geographic Distribution of Loans

FNB's geographic distribution of loans reflects reasonable dispersion throughout the AA. Overall lending between commercial and consumer loans compare favorably for LMI CTs. Additional factors considered during the evaluation include the middle income CT (Brooks County #9502) for the 2015-2016 period was classified as a distressed CT. This CT was considered a moderate income CT for purposes of analyzing loans originated in 2017 due to a change in census data.

Commercial lending

FNB has demonstrated reasonable dispersion in lending to businesses in different CTs. The following charts represent the geographic dispersion to borrowers in different income CTs. All eight commercial loans originated within the AA in 2017 were extended to borrowers in LMI CTs and the majority to borrowers in the low income CT. All 16 commercial loans originated in 2015-2016 were extended to LMI CTs or the distressed middle income CT.

Table 3A - Geographic Distribution of Loans to Businesses FNB AA 2017

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 /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	56	88	44	12	0	0	0	0

Source: Loan sample; Dun and Bradstreet data.

Table 3A - Geographic Distribution of Loans to Businesses FNB AA 2015-2016

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 /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	58	37	26	38	16	25	0	0

Source: Loan sample; Dun and Bradstreet data.

Consumer lending

Consumer lending to different income level CTs reflects reasonable dispersion. The percentage of consumer loans originated in low income CTs was near the percentage of households located in the low income CTs for 2015-2016 and 2017. The percentage of consumer loans originated in a moderate income CT exceeded the percentage of households located in moderate income CTs for 2017. Although 2015-2016 consumer loans originated in a moderate CT fell below the comparative household percentage, consumer loans originated in the distressed middle income CT exceeded the percentage of households located in that CT.

Table 3B - Geographic Distribution of Consumer Loans in FNB AA 2017								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	47	39	53	61	0	0	0	0

Source: Loan sample; Dun and Bradstreet data

Table 3B - Geographic Distribution of Consumer Loans in FNB AA 2015-2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	45	37	35	17	20	50	0	0

Source: Loan sample; Dun and Bradstreet data

Responses to Complaints

The bank had no CRA related complaints.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD loans): (01/01/15 to 12/31/17)	
Financial Institution		Products Reviewed
FNB Falfurrias Falfurrias, Texas		Commercial and Industrial Commercial Real Estate Loans to individuals
Affiliate(s)	Affiliate Relationship	Products Reviewed
N/A	N/A	N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Brooks County #9501, #9502 Jim Wells County #9507	Full Scope	FNB Falfurrias identified three census tracts including all of Brooks County and the southern portion of Jim Wells County.

Appendix B: Community Profiles for Full-Scope Areas

Assessment Area Demographics

Demographic Information for Full-Scope Area: Brooks – Jim Wells County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	3	33	66	0	0	
Population by Geography	10,469	51.12	48.88	0	0	0
Owner-Occupied Housing by Geography	2,368	47.87	55.67	0	0	0
Businesses by Geography	383	56.14	43.86	0	0	0
Farms by Geography	31	16.13	83.87	0	0	0
Family Distribution by Income Level	2,340	40.81	19.06	12.82	27.31	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	1,401	55.25	44.75	0	0	0
Median Family Income 2017 FFIEC Adjusted Median Family Income Households Below the Poverty Level	= \$32,464 = \$54,200 = 33.52%	Median Housing Value Unemployment Rate				= \$53,616 = 9.31%

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2015 U.S. Census, and 2017 HUD updated MFI.

FNB has designated all of Brooks County, and southernmost CT of Jim Wells County as its AA. Falfurrias is the county seat of Brooks County, while the Jim Wells CT includes the town of Premont. Other communities located within Brooks County include Encino and Rachal. The bank's AA is comprised of three contiguous CTs. This area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies.

Overall economic conditions of the AA are poor. The AA has a total population of 10,469 based on 2015 census data and has declined slightly from 2000 census data used at the prior CRA evaluation. The current unemployment rate of 9.31 percent is steadily increasing from 8.2 percent at the prior CRA evaluation and exceeds the statewide average of 4 percent. The number of households below the poverty level remains elevated at 33.5 percent. The number of non-farm businesses have decreased from 433 in 2015, to 383 in 2017. These factors along with other demographic data reviewed show that there is decreasing lending opportunities to both individuals and businesses in the AA.

The OCC conducted an interview with a community contact to gather additional information about the AA, credit needs of the community, opportunities for financial institution involvement, and performance/perceptions of financial institutions and their involvement. The community was described as being impoverished with a difficult job

market. The border patrol, a detention center, and the local school district are the largest employers. A high dropout rate was considered the greatest barrier to further education and employment. There are no organizations for-profit or otherwise that focus on CD activities. Identified needs are youth facilities and improved parks. The contact also stated that upgrading downtown would help bring in new or additional business. With the lack of any significant groups or individuals focusing on CD activities there are limited opportunities for financial institution involvement. The community contact stated that FNB was well regarded, and believed that the institution was meeting the needs of the community.