



PUBLIC DISCLOSURE

April 13, 2022

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Sterling City
Charter Number: 9813

602 4th Street
Sterling City, TX 76951

Office of the Comptroller of the Currency

5001 West Loop 289
Suite 250
Lubbock, TX 79414

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

Institution's CRA Rating: This institution is rated **Satisfactory**.

The lending test is rated: Satisfactory

The major factors that support this rating include:

- A majority of loans sampled are within the bank's assessment area (AA).
- A reasonable quarterly average net loan-to-deposit (LTD) ratio during the evaluation period.
- Consumer lending to individuals of different incomes is reasonable.
- Home mortgage lending to individuals of different incomes is reasonable.

Loan-to-Deposit Ratio

Considering the bank's size, financial condition, and credit needs of the AA(s), the bank's loan-to-deposit ratio is reasonable.

The First National Bank of Sterling City's (FNB) quarterly average LTD ratio calculated over the last 21 quarters is 16 percent. Similarly situated institutions located within or adjacent to the AA had a quarterly LTD ratio of 29.3 percent, with a high average rate of 40.6 percent and low average rate of 24.1 percent.

The LTD ratio is historically low for FNB, as primary focus is on the investment portfolio. There are sparse lending opportunities available to the institution within the AA. Agriculture is a cornerstone of the local economy, limiting lending to existing relationships. Borrower operating needs were recently reduced given profitable crop years. The LTD ratio has seen further compression since 2020, spurred by major increases in deposits from the pandemic, customer oil and gas royalties, and public funds, while loan growth has remained static.

Lending in Assessment Area

A majority of the bank's loans are inside its assessment area.

The bank originated and purchased 82 percent of its total loans inside the bank's AAs during the evaluation period. This analysis is performed at the bank, rather than the AA, level. This percentage does not include extensions of credit by affiliates that may be considered under the other performance criteria.

Loans inside the AA are considered part of the geographical distribution analysis under the Lending Test.

Lending Inside and Outside of the Assessment Area										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Home Mortgage	21	78	6	22	27	2,779	73	1,018	27	3,797
Consumer	25	86	4	14	29	176	39	276	61	452
Total	46	82	10	18	56	2,955	70	1,294	30	4,249

Description of Institution

FNB is a \$231 million community bank headquartered in Sterling City, Texas, located approximately 150 miles southeast of Lubbock. FNB is a wholly owned subsidiary of Sterling City Bancshares, Inc., a single bank holding company. FNB is an intrastate bank with its main office located in Sterling City, and two branches located in Garden City, Texas and Bronte, Texas.

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 3:00 PM. A drive-up facility is located at the Bronte branch and operates Monday through Friday from 8:00AM to 3:00 PM. FNB also offers online banking at www.thefnb.com. The online banking service provides access to account information, online transfers between accounts, and bill pay services.

The bank's business strategy is to provide outstanding service to meet the specific needs of individual customers and small and medium sized businesses in its markets, including agricultural businesses, commercial businesses, and consumers.

As of December 31, 2021, net loans and leases comprised 12.3 percent of total assets. The bank's primary loan products include home mortgage loans and consumer loans, by dollar volume, number of originations, and the bank's business strategy.

The bank received a Satisfactory rating at its January 30, 2017, CRA examination. FNB has no legal or financial circumstances that would impede the bank's ability to help meet community credit needs.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The CRA evaluation period is January 1, 2019, through December 31, 2021. The OCC evaluated FNB using small bank CRA performance standards that include five performance criteria: the LTD ratio, lending in the AA, lending to borrowers of different incomes and businesses of different sizes, geographic distribution of loans, and responsiveness to CRA complaints. To evaluate FNB's lending performance, the OCC selected a random sample of loans originated during the evaluation period based on identified primary products in the bank's AA. Primary loan types are those products originated at the highest percentage by number and/or dollar volume of loans and management's business strategy.

During this evaluation period, primary products consisted of consumer and home mortgage loans in the FNB Sterling City AA.

Selection of Areas for Full-Scope Review

In each state where the bank has an office, one or more of AAs within that state was selected for a full-scope review. For purposes of this evaluation, bank delineated assessment areas located within the same metropolitan statistical area (MSA), multistate metropolitan statistical area (MMSA), or combined statistical area (CSA) are combined and evaluated as a single AA. Similarly, bank delineated non-MSA AAs within the same state are combined and evaluated as a single area. These combined AAs may be evaluated as full- or limited-scope. Refer to the “Scope” section under each State Rating for details regarding how full-scope AAs were selected. Refer to appendix A, Scope of Examination, for a list of full- and limited-scope AAs.

Ratings

The bank’s overall rating is a blend of the state ratings, and where applicable, multistate ratings.

FNB has only one rating area, which is the State of Texas. The bank’s overall rating is based on a full-scope review of the FNB Sterling City AA within the state.

The MMSA rating and state ratings are based on performance in all bank AAs. Refer to the “Scope” section under each state and MMSA Rating section for details regarding how the areas were weighted in arriving at the respective ratings.

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 AA 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 Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution 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.

State Rating

State of Texas

CRA rating for the State of Texas: Satisfactory

The Lending Test is rated: Satisfactory

The major factors that support this rating include:

- A majority of loans sampled are within the bank's assessment area (AA).
- A reasonable quarterly average net loan-to-deposit (LTD) ratio during the evaluation period.
- Consumer lending to individuals of different incomes is reasonable.
- Home mortgage lending to individuals of different incomes is reasonable.

Description of Institution's Operations in Texas

FNB is a \$231 million community bank headquartered in Sterling City, Texas, located approximately 150 miles southeast of Lubbock. FNB is a wholly owned subsidiary of Sterling City Bancshares, Inc., a single bank holding company. FNB is an intrastate bank with its main office located in Sterling City, and two branches located in Garden City, Texas and Bronte, Texas.

FNB has designated Sterling, Glasscock, and Coke Counties as its AA. The AA is comprised of three contiguous counties and does not arbitrarily exclude any low- or moderate-income areas. There are four census tracts in the AA. Two are middle-income and two are upper income. The AA has a total population of 5,689. About 12 percent of households are below the poverty level. Refer to Appendix A for a listing of all bank AAs.

The unemployment rate for Sterling County is 4.3 percent, Glasscock County is 3.1 percent, and Coke County is 4.4 percent, which are all similar to the state of Texas and the United States unemployment rates at 4.7 and 3.6 percent, respectively. The local economy is based on agriculture, primarily cotton farming, and livestock. Oil and gas production and wind energy are also significant economic factors. The largest non-agricultural employers include various oil and gas production and service companies and the local school districts.

Competition is moderate for both deposits and loans. In addition to FNB, one other financial institution operates within the AA. The Deposit Market Share Report shows that FNB ranks first with 81 percent of all deposits.

A community contact was performed and determined that the public's perception of local institutions is satisfactory. A discussion was held with Robert Lee City Deputy Secretary Amanda Mendoza. Ms. Mendoza stated that primary needs within the county are small business funding and affordable housing. Strong performance of the local windmill industry has resulted in increasing population and the need for homes. Contact was unaware of any specific projects or opportunities for bank involvement.

FNB Sterling City AA

Table A – Demographic Information of the Assessment Area						
Assessment Area: FNB Sterling City AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0.0	0.0	50.0	50.0	0.0
Population by Geography	5,764	0.0	0.0	50.8	49.2	0.0
Housing Units by Geography	3,821	0.0	0.0	50.6	49.4	0.0
Owner-Occupied Units by Geography	1,753	0.0	0.0	50.9	49.1	0.0
Occupied Rental Units by Geography	730	0.0	0.0	47.5	52.5	0.0
Vacant Units by Geography	1,338	0.0	0.0	51.8	48.2	0.0
Businesses by Geography	370	0.0	0.0	48.9	51.1	0.0
Farms by Geography	139	0.0	0.0	18.7	81.3	0.0
Family Distribution by Income Level	1,711	15.5	13.1	18.5	52.96	0.0
Household Distribution by Income Level	2,483	23.4	14.4	13.5	48.7	0.0
Median Family Income MSA – 41660 San Angelo, TX MSA		\$59,960	Median Housing Value			\$95,334
			Median Gross Rent			\$688
			Families Below Poverty Level			7.9%
<i>Source: 2015 ACS Census and 2020 D&B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

Scope of Evaluation in Texas

As noted, the institution has one AA comprised of three contiguous counties. The AA received a full-scope review. Refer to appendix A, Scope of Examination, for a list of full- and limited-scope AAs. Consistent with the institution’s primary lending focus, consumer loans and home mortgages were analyzed. Additional wight was placed on the income level of the borrower due to no low- and moderate-income CTs available to for the distribution of loans by geography.

Lending Test

The bank’s performance under the Lending Test in Texas is rated **Satisfactory**.

Conclusions for Areas Receiving a Full-Scope Review

Based on a full-scope review, the bank’s performance in the FNB Sterling City AA is good.

Distribution of Loans by Income Level of the Geography

The AA does not contain any low- nor moderate-income census tracts. For this reason, a geographic distribution analysis is not meaningful and was not performed.

Distribution of Loans by Income Level of the Borrower

The bank exhibits an excellent distribution of loans to individuals of different income levels, given the product lines offered by the bank.

Home Mortgage Loans

Refer to Table P in the state of Texas section of appendix D for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

The distribution of mortgage reflects reasonable penetration among individuals of different income levels in the AA. The distribution of mortgage loans to low-income borrowers is below the demographic but exceeds the aggregate level of lending. Originations to moderate-income borrowers exceed both the demographic and aggregate measures.

Consumer Loans

Refer to Table V in the state of Texas section of appendix D for the facts and data used to evaluate the borrower distribution of the bank's consumer loan originations and purchases.

The distribution of consumer loans reflects excellent penetration among individuals of different income levels in the AA. The distribution of consumer loans to low- and moderate-income borrowers exceeds the demographic.

Responses to Complaints

Neither the bank nor the OCC have received any CRA-related complaints during the evaluation period.

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 MSAs and non-MSAs 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:	January 1, 2019 to December 31, 2021	
Bank Products Reviewed:	Home mortgage and consumer loans.	
List of Assessment Areas and Type of Examination		
Rating and Assessment Areas	Type of Exam	Other Information
Texas		
FNB Sterling City AA	Full-Scope	Home mortgage and consumer loans

Appendix B: Summary of MMSA and State Ratings

RATINGS The First National Bank of Sterling City	
Overall Bank:	Lending Test Rating
The First National Bank of Sterling City	Satisfactory
State:	
Texas	Satisfactory

Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in 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. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): 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; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, 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, 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-Scope 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), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

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-Scope 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: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

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 state/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. The median is the point at which half of the families have income above, and half below, a range of incomes. 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, and half below, a range of incomes.

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.

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.

Rating Area: A rated area is a state or multi-state metropolitan statistical 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 statistical area, the institution will receive a rating for the multi-state metropolitan statistical 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 1 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.

Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

Table P. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MMSA/assessment area. The table also presents aggregate peer data for the years the data is available.

Table V. Assessment Area Distribution of Consumer Loans by Income Category of the Borrower - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of households by income level in each MMSA/assessment area.

Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																2019-2021		
Total Home Mortgage Loans			Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers			
	#	\$	% of Total	% of Families	% Bank Loans	Aggregate	% of Families	% Bank Loans	Aggregate	% of Families	% Bank Loans	Aggregate	% of Families	% Bank Loans	Aggregate	% of Families	% Bank Loans	Aggregate
FNB Sterling City AA	21	2,779	100	15.5	9.5	4.6	13.1	14.3	13	18.5	9.5	13.9	52.9	66.7	56.5	0	0	12
Total	21	2,799	100	15.5	9.5	4.6	13.1	14.3	13	18.5	9.5	13.9	52.9	66.7	56.5	0	0	12

Source: 2015 U.S Census; 01/01/2019 - 12/31/2021 Bank Data, "--" data not available. Due to rounding, totals may not equal 100.0

Table V: Assessment Area Distribution of Consumer Loans by Income Category of the Borrower													2019-2021	
Assessment Area:	Total Consumer Loans			Low-Income Borrowers		Moderate Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Not Available-Income Borrowers		
	#	\$	% of Total	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	
FNB Sterling City AA	25	176	100	23.4	28	14.4	28	13.5	28	48.7	16	0	0	
Total	25	176	100	23.4	28	14.4	28	13.5	28	48.7	16	0	0	

Source: 2015 U.S Census; 01/01/2019 - 12/31/2021 Bank Data. Due to rounding, totals may not equal 100.0