



## PUBLIC DISCLOSURE

September 14, 2015

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First Liberty National Bank  
Charter Number 12850

1900 Sam Houston Avenue  
Liberty, TX 77575

Office of the Comptroller of the Currency

1301 McKinney Street  
Suite 1410  
Houston, TX 77010-3031

**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 Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Satisfactory**

The First Liberty National Bank (FLNB) is responsive to the credit needs of the community, including the needs of low- and moderate-income (LMI) individuals in its assessment area (AA). The following factors support this conclusion:

- FLNB originates a substantial majority of its loans within its AA.
- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs of the AA, and consistent with similarly situated banks in the surrounding area.
- The borrower distribution of consumer loans to low-income borrowers is excellent.
- The geographic distribution of commercial and consumer loans in moderate-income geographies reflects excellent dispersion.
- FLNB has demonstrated adequate responsiveness to Community Development (CD) needs.

## **Scope of Examination**

FLNB was evaluated under the Intermediate Small Bank Community Reinvestment Act (CRA) evaluation procedures, which include the lending test and CD test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through lending activities. Our evaluation period for the lending test was from January 1, 2013 through June 30, 2015. The CD test evaluates the bank's responsiveness to CD needs and opportunities within the community. We evaluated CD activities from May 24, 2010, to the start date of this evaluation, September 14, 2015.

We reviewed the two major loan products of the bank, consisting of commercial and consumer loans. Commercial loans were the largest product by dollar volume, totaling \$56.7 million or 39.4 percent of the portfolio. Conversely, consumer loans were the largest product by number, equaling 4,046 or 80.7 percent of the portfolio.

FLNB is subject to the reporting requirements of the Home Mortgage Disclosure Act. However, as residential real estate loans are not a primary product, these were not part of the analysis at this evaluation.

## **DESCRIPTION OF INSTITUTION**

FLNB is an independent, community bank headquartered in Liberty, Texas. The bank is wholly owned by First Liberty National Bancshares, Inc., which reported total assets of \$35 million as of June 30, 2015. In addition to the main branch, FLNB has one branch located in Dayton, Texas. Banking hours are reasonable and uniform across both branches. During the week, lobby hours are 9:00 a.m. to 4:00 p.m. Monday-Thursday, and 9:00 a.m. to 6:00 p.m. on Friday. Drive-thru hours are 7:00 a.m. to 6:00 p.m. Monday-Friday. On Saturday, both lobbies are closed, but drive-thru services are available from 9:00 a.m. to noon. FLNB provides customers with four automated teller machines (ATMs), of which two of these accept deposits. Two remote ATMs are located in Liberty, Texas, one in Hardin, Texas, and one at the Dayton branch. The bank also provides 24-hour telephone banking and online banking services.

FLNB offers a wide array of deposit and loan products and services to help meet the credit needs in its AA. At June 30, 2015, the bank had \$298 million in assets and a tier 1 leverage capital ratio of 11.54 percent. There are no legal or financial factors that hinder the bank's ability to help meet the credit needs of the AA.

The bank was rated "Satisfactory" at its last CRA evaluation dated May 24, 2010.

*Please refer to the bank's Public File for additional information.*

## **DESCRIPTION OF ASSESSMENT AREA**

The Liberty AA is comprised of 31 census tracts (CTs), in Liberty County, as well as portions of Chambers and Harris Counties, all located in the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area. Of the 31 CTs, one is low-income, seven are moderate-income, 18 are middle-income, and four are upper-income. Additionally, one CT did not report income information. The Liberty AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income CTs.

According to the 2010 U.S. Census, the total AA population is 180 thousand, with 65 thousand housing units, of which 46 thousand (70.4 percent) are owner-occupied. Twelve percent of households in the AA are below the poverty level, and 27 percent of households are receiving social security benefits. Per the U.S. Bureau of Labor Statistics, the unemployment rates by county as of June 2015 are as follows: Liberty – 6.7 percent, Chambers – 5.2 percent, and Harris – 4.5 percent. The unemployment rate for the state of Texas was 4.4 percent, and these figures were not seasonally adjusted. The Federal Deposit Insurance Corporation reports there are eight banks in Liberty County, with FLNB retaining 30 percent of the market share.

A community contact in the Liberty AA identified the demand for small business lending with a secondary need for consumer lending, specifically to LMI individuals in the area. The contact indicated that local banks are cognizant of financial needs in the community.

It was noted specifically that local banks and credit unions are strong supporters of the local schools and non-profit community organizations.

### **Liberty County**

The town of Liberty, originally Villa de la Santísima Trinidad de la Libertad, was founded in 1831 near the Spanish settlement of Atascacito. After the Texas Revolution, residents shortened the town name to Liberty, and it was incorporated and established as the county seat in 1837. According to the 2010 U.S. Census, Liberty County has a total population of 75 thousand. The local economy is centered around education and healthcare, as well as manufacturing, construction, retail trade, and transportation. Major employers include the Liberty-Dayton Regional Medical Center, the Liberty and Dayton Independent School Districts, the Texas Department of Criminal Justice, as well as local city governments. The Liberty AA is comprised of all CTs located in Liberty County. The Liberty County income levels range from low- to upper-income and includes CTs 7001.00 through 7014.00.

### **Chambers County**

Chambers County, named for Thomas Jefferson Chambers, a Major General in the Texas Revolution, is located less than twenty miles east of Houston in the Coastal Prairie region of Southeast Texas. The county was formed in 1858 from Liberty and Jefferson counties, and Anahuac is the county seat. According to the 2010 U.S. Census, Chambers County has a total population of 35 thousand. The local economy is centered on manufacturing, construction, trade and transportation, local government, and finance activities. Major employers in the area include Anahuac ISD, Barbers Hill ISD, Bayer Corporation, CEG Staffing Services, and the County of Chambers. The Chambers County income level ranges from moderate- to upper-income, and includes CTs 7101.00 through 7106.00.

### **Harris County**

Originally named Harrisburg County, Harris County, Texas, is the most populous in the state with over 4 million residents as of the 2010 U.S. Census. Houston is the county seat and the largest city therein. Most of the residents live within the 34 municipalities, with 2.1 million living in the city of Houston itself. The county's economy is largely driven by its largest city, often referred to as the center of the oil and gas industry in the United States. Besides energy, Houston is also a world leader in the chemical industry, with nearly 40 percent of the nation's capacity for producing the basic chemicals that are used by downstream chemical operations. The area is home to 405 chemical plants employing roughly 36,000 people. Major employers include Memorial Hermann Health System, United Airlines, ExxonMobil Corporation, Houston Methodist, and Shell Oil Company. The Harris County income levels included in the AA range from middle- to upper-income and includes CTs 2516.00 through 2518.00, 2519.01, 2519.02, and 2527.00 through 2532.00.

## Conclusions with Respect to Performance Tests

### Loan-to-Deposit Ratio

The LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. As of June 30, 2015, FLNB's quarterly LTD ratio since the prior evaluation averaged 46.30 percent. A peer group of three banks with total assets ranging from \$155 million to \$337 million headquartered in the AAs or surrounding counties, was used as comparator banks. For the same evaluation period, these banks had average LTD ratios ranging from a low of 36.32 percent to a high of 48.14 percent, with an average of 43.15 percent. FLNB's LTD ratio compares favorably and ranks second among all four banks.

### Lending in Assessment Area

A substantial majority of loan originations, by both number and dollar amount, are inside the bank's AAs. Specifically, 88 percent of the number and 81 percent of the dollar volume of loans originated or purchased during the evaluation period were in FLNB's AA. Our analysis included 108 loans originated from January 1, 2013 to June 30, 2015. The following table details FLNB's lending in the AA by product type.

<b>Table 1 - Lending in Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	50	86.21	8	13.79	58	647	82.50	137	17.50	784
Commercial	45	90.00	5	10.00	50	9,422	86.58	1,644	18.94	10,883
<b>Totals</b>	<b>95</b>	<b>87.96</b>	<b>13</b>	<b>12.04</b>	<b>108</b>	<b>10,069</b>	<b>81.18</b>	<b>1,781</b>	<b>18.82</b>	<b>11,667</b>

Source: Loan data collected by FLNB.

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

Overall, the distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes given the bank's product offerings and local economic conditions.

### Commercial Loans

The distribution of commercial loans to businesses is adequate and reflects reasonable penetration among businesses of different sizes in the Liberty AA. Sixty percent of the bank's loans to businesses originated and purchased during the loan-sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. This is reasonable when compared to demographic data that shows 81 percent of the area's businesses are small businesses. The following table shows the distribution of commercial loans among different sized businesses in the AA.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Liberty AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80.67%	3.45%	15.88%	100%
% of Bank Loans in AA by #	<b>59.52%</b>	30.95%	9.52%	100%
% of Bank Loans in AA by \$	43.52%	55.70%	0.78%	100%

Source: Dun & Bradstreet Data; Loan Sample

### **Consumer Loans**

The distribution of consumer loans to borrowers reflects excellent penetration among borrowers of different income levels in the Liberty AA. The bank’s level of lending to low-income borrowers is excellent, and significantly exceeds the demographic benchmark. Lending to moderate-income borrowers was good, and the percentage of originations was near to the demographic benchmark. The following table shows the distribution of consumer loan products among borrowers of different income levels as compared to the percent of families in each income category.

<b>Table 2B - Borrower Distribution of Consumer Loans in Liberty AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	23.64	<b>42.00</b>	16.58	<b>16.00</b>	18.70	12.00	41.08	30.00

Source: 2010 U.S. Census Data; Loan Sample

### **Geographic Distribution of Loans**

The overall geographic distribution of loans reflects excellent dispersion throughout the bank’s AA. The bank did not have any originations in the AA’s one low-income CT, mostly comprised of a large body of water, and accounts for less than 2 percent of households and businesses. The geographic distribution reflects excellent dispersion of both commercial and consumer loan originations in moderate-income areas as these significantly exceed the geographic comparator. A majority of CTs are in middle- and upper-income areas, affecting the opportunities for originating loans in low- and moderate-income areas. There were no conspicuous gaps identified in the geographic distribution.

## Commercial Loans

The geographic distribution of commercial loans reflects excellent dispersion throughout the moderate-income CTs in the Liberty AA. Despite having no originations in the one low-income CT, the bank is meeting the lending needs of the AA given that originations in moderate-income tracts significantly exceed the demographic comparator. The absence of lending in the low-income area is further offset by the relatively low percentage of businesses located there. Consequently, more consideration was given to originations to businesses in moderate-income tracts. The bank's performance is shown in the following table.

<b>Table 3A - Geographic Distribution of Loans to Businesses in Liberty AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Comm'l	1.90	0.00	16.82	<b>29.55</b>	60.46	63.64	20.83	6.82

Source: 2010 U.S. Census Data; Dun & Bradstreet data, Loan Sample

## Consumer Loans

The geographic distribution of consumer loans reflects an excellent dispersion throughout the geographies in the Liberty AA. As mentioned, the bank did not have any originations in its one low-income CT. Due to the low number of households in this tract, consumer lending in moderate-income CTs was given more consideration. The geographic distribution of loans in moderate-income tracts is excellent, and exceeds the percentage of households in the AA. The following table details the bank's performance as compared to the percentage of owner-occupied housing units in each income level.

<b>Table 3B - Geographic Distribution of Consumer Loans in Liberty AA</b>								
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	1.83	0.00	19.90	<b>22.58</b>	60.25	77.42	18.02	0.00

Source: 2010 U.S. Census Data; Loan Sample

## **Responses to Complaints**

The bank did not receive any CRA-related complaints during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

Overall, the bank's performance for the CD test is Satisfactory, and reflects adequate responsiveness to CD needs of the AAs primarily through CD investments and donations, lending, as well as services.

### **Number and Amount of Community Development Loans**

During the evaluation period, FLNB originated or refinanced eight qualified CD loans totaling \$2.3 million. These loans included:

- Five loans totaling \$1.1 million, ranging from \$100 thousand to \$220 thousand, to the Dayton Independent School District to finance the purchase of school buses and payment of professional services. A majority of the student body is economically disadvantaged and these community services provide LMI students with continuing access to educational facilities.
- A \$1.2 million loan in November 2012 that provided community services to the Hardin Independent School District to finance capital improvements to a school where a majority of the student body is economically disadvantaged.

### **Number and Amount of Qualified Investments**

During the evaluation period, FLNB made five qualifying investments in the AA totaling \$3.6 million, which represents 10.59 percent of tier 1 capital. These qualified investment included:

- Three \$1 million bonds issued by a local school district purchased in December 2014 to provide funding for designing, constructing, renovating, acquiring, and equipping school facilities. Per the 2013-2014 Texas Academic Performance Report, 61.6 percent of the student body are economically disadvantaged.
- Two bonds issued by a Liberty Community Development Corporation for \$305 thousand and \$325 thousand, respectively. Proceeds were used to construct roadways for the purpose of promoting new or expanded business development in the AA.

Donations were to organizations that provide need-based scholarships, promote financial literacy among LMI students, and other community services.

## **Extent to Which the Bank Provides Community Development Services**

FLNB is involved in activities that promote CD services throughout its AA. We identified 11 qualifying CD services performed by bank officers and directors during the evaluation period. These activities involve bank officers and directors providing their financial expertise to organizations whose primary purpose is to promote the economic development of the AA, and organizations that target community services for LMI individuals in the AA.

FLNB offers reasonable access to services in its AA. The bank operates two full service branches that allow reasonable access to ATM, night deposit boxes, and other services. The main office is located in Liberty, TX, which is a middle-income CT and business center within the rural area. The second branch is in Dayton, TX, which is also a middle-income CT, and similarly is a business center within the rural area. ATMs are available at both branch locations with one additional ATM located in Liberty, TX, and one in Hardin, TX. FLNB does not have any of its branches located in low-income CTs; however, branch locations are accessible to individuals in low-income CTs.

FNB offers various products, which include checking, savings, certificates of deposit, online bill pay, direct deposit, wire transfer, consumer loans, commercial loans, real estate loans, and small business loans. Additionally the bank has instituted a mortgage program for LMI individuals. The mortgages are capped at \$150 thousand, have a fixed interest rate, and allow for 95 percent financing. Individuals must meet certain income-based criteria, and the loan must adhere to the bank's underwriting standards.

## **Responsiveness to Community Development Needs**

FLNB's CD activities, as a whole, are responsive to identified CD needs in its AA. The bank's CD loans financed improvements in local school districts where a majority of the student bodies are LMI. Investments also helped meet community needs through school district bonds where a majority of students are underprivileged, as well as meet economic development needs in its AA. Bank officers and directors provided technical assistance to qualifying organizations, including financial literacy training for LMI individuals. In addition, the officers and employees of the bank provided technical assistance to community service organizations.

## **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 (bank) 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.