



## **PUBLIC DISCLOSURE**

October 31, 2016

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

First National Bank of Fort Stockton  
Charter Number 14842

1000 W. Dickinson Blvd.  
Fort Stockton, TX 79735

Office of the Comptroller of the Currency

5225 South Loop 289  
Suite 108  
Lubbock, TX 79424-1319

**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 First National Bank of Fort Stockton (FNB) has a reasonable quarterly average net loan-to-deposit ratio of 35 percent during the evaluation period, with a steadily increasing trend.
- FNB originated a majority of its loans by number (80 percent) and dollar volume (59) to businesses and individuals located within the assessment area (AA).
- FNB's loan portfolio reflects an overall excellent penetration among businesses of different sizes and individuals of various income levels within the AA.
- The geographic distribution of commercial and consumer loans reflects reasonable dispersion given the bank's performance context, business strategy, and locations.

## **SCOPE OF EXAMINATION**

We evaluated FNB under the small bank performance standards, which include five performance criteria: the loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, geographic distribution of loans, and responses to CRA-related complaints.

To evaluate FNB's lending performance, a random sample of loans was selected based on the bank's primary loan types. Primary loan types are those products that have been originated at the highest percentage by number and/or dollar volume of loans. During this evaluation period, primary products consisted of commercial and consumer loans. To assess performance, we reviewed 30 commercial and 30 consumer loans originated during 2014, 2015 and year-to-date 2016 in the Pecos County AA. The Williamson County AA did not contain a sufficient number of loans upon which to perform meaningful analysis due to the de novo nature of the Jarrell branch in late 2012. Therefore, conclusions are based only on FNB's performance in the Pecos County AA.

## **DESCRIPTION OF INSTITUTION**

FNB is a \$102 million community bank headquartered in Fort Stockton, Texas, in the southwest portion of the state. FNB is a wholly owned subsidiary of FNB Holding Company, a single-bank holding company. As of June 30, 2016, FNB Holding Company had total assets of \$102 million. FNB is an intrastate bank with its main office located in Fort Stockton, Texas. During the evaluation period, FNB opened a de novo branch in Jarrell in December 2012 (dba Community Bank of Jarrell) and purchased an existing branch in Iraan from Tejas Bank in April 2015 (dba Brave National Bank).

The bank's business strategy is to provide a wide variety of banking services geared to its customers' needs and the local economy. FNB is a community banking organization focused on meeting the specific needs of individual customers and small and medium sized businesses in our markets, including agricultural businesses, ranches, commercial businesses, and consumers.

As of June 30, 2016, net loans and leases comprised 44.5 percent total assets. 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 the loan portfolio.

<b>Outstanding Loans by Original Amount as of September 30, 2016</b>				
<i>Loan Type</i>	<i># of Loans</i>	<i>% of #</i>	<i>\$ of Loans</i>	<i>% of \$</i>
<b>Commercial and Commercial Real Estate</b>	268	25%	\$41,740	<b>63%</b>
<b>Consumer</b>	647	<b>60%</b>	\$6,167	9%
Residential Real Estate (1-4 Family)	49	5%	\$8,496	13%
Agricultural and Farmland	109	10%	\$9,630	15%
Total	1,073	100%	\$66,033	100%

Source: Bank Loan Trial Balance

The bank provides traditional banking services including a variety of traditional loan and deposit accounts. Bank lobby services at the main bank and both branches are provided Monday through Friday with varying hours. Drive-up facilities are located at all three locations and operate Monday through Friday, with extended hours to 6:00 PM on Friday. The Fort Stockton branch also offers limited drive-up hours on Saturday. All branches have onsite ATMs, and there are five other ATMs located throughout the city of Fort Stockton. FNB also offers online banking at [www.fnbfst.com](http://www.fnbfst.com).

The bank received a Satisfactory rating at its February 16, 2010 CRA evaluation. FNB has no legal or financial circumstances that would impede the bank's ability to help meet community credit needs.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNB has established two AAs, both of which meet regulatory requirements and do not arbitrarily exclude any low- or moderate-income areas.

The Pecos County AA includes the Fort Stockton main office and the Iraan branch. Pecos County has a population of approximately 15,507. The largest employers are oil and gas service companies, governmental services (state, county, city), health care, and schools. Specific demographic data and economic data for the AA are listed below.

There are four census tracts in the Pecos County AA. Two tracts are designated moderate-income, one is middle-income, and one is upper-income. The 2016 HUD adjusted median family income is \$52,800. Economic conditions are stable. About 21 percent of households are below the poverty level. The unemployment rate is 6.6 percent, slightly above the state of Texas and the United States, both at 4.9 percent. The decline in oil and gas prices has slowed the overall economy somewhat.

There are 89 census tracts in the Williamson County AA. This AA is part of the larger Austin, TX MSA. Fourteen tracts are moderate-income (16 percent), 47 tracts are middle-income (53 percent), and 28 tracts are upper-income (31 percent). The 2016 HUD adjusted median family income is \$76,800. Economic conditions are strong. Only 6 percent of households are below the poverty level. The unemployment rate is very low at 3.6 percent. The Austin, TX MSA is an area of high economic growth.

Competition is strong for both deposits and loans. In addition to FNB, two other financial institutions operate within Pecos County. The June 30, 2016 FDIC Market Share Report shows that FNB ranks second with 36 percent of all deposits. In Williamson County, FNB ranks last among 32 financial institutions with deposit market share of only 0.07 percent. Three large national banks dominate the market with a combined 44 percent of deposits. Given these challenges, FNB has announced the closure of the Jarrell branch effective January 2017.

We contacted a local organization to obtain a community profile and identify opportunities for community development participation by local institutions. After a prior slowdown in the energy economy, our contact noted recent improvement and that some clean energy jobs, such as wind and solar, are also available. According to our contact, area banks are very helpful with time and donations to community projects, as well as participation on committees and making small business loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB’s loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, local competition, and AA credit needs. This determination is based on the bank’s quarterly average net LTD ratio for 26 quarters from March 31, 2010 through June 30, 2016 of 35.28 percent. During the evaluation period, FNB’s net LTD ratio ranged from a low of 17.80 percent on March 31, 2010 to a high of 50.05 percent on June 30, 2016, reflecting a steadily increasing trend. The average net LTD ratio of similarly situated banks (below \$300 million in total assets and located within the AAs) for the same period was 37.61 percent.

Loan-to-Deposit Ratios		
<i>Institution Name</i>	<i>Total Assets (000s)</i>	<i>Quarterly Average Net Loan-to-Deposit Ratio</i>
<b>The First National Bank of Fort Stockton</b>	<b>101,595</b>	<b>35.28</b>
The Pecos County State Bank	222,562	45.33
The Granger National Bank	32,297	23.68
The City National Bank of Taylor	191,006	43.83

Source: Institution Reports of Condition from March 2010 to June 2016

## Lending in Assessment Area

A majority of FNB's loans, 80 percent by number and 59 percent by dollar amount, were extended to borrowers who live or operate their businesses inside the Pecos County AA. The breakdown by loan category is illustrated in the following table.

Lending in Pecos County AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	20	66.7	10	33.3	30	\$2,433	56.7	\$1,855	43.3	\$4,288
Consumer	28	93.3	2	6.7	30	\$261	92.6	\$21	7.4	\$282
Totals	48	<b>80.0</b>	12	20.0	60	\$2,694	<b>59.0</b>	\$1,876	41.0	\$4,570

Source: Sample of loans used for CRA performance analysis

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

FNB's loan portfolio reflects an overall excellent penetration among businesses of different sizes and individuals of various income levels within the Pecos County AA. To perform our analysis, we reviewed revenue information for 20 commercial loans and 28 consumer loans originated in the AA during 2014, 2015, and year-to-date 2016.

The percentage of FNB commercial loans by number exceeds the ratio of AA businesses with gross annual revenues less than or equal to \$1 million. Eighty-five percent of sampled loans were to businesses with less than or equal to \$1 million in revenue. Demographic information shows that 65 percent of AA businesses reported revenues less than or equal to \$1 million. The dollar volume of sampled loans was below the demographic at 37 percent, as the three largest loans in the sample were originated to the three largest businesses by revenue size, all well over \$1 million.

Borrower Distribution of Commercial Loans in Pecos County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	65.18	4.45	30.37	100%
% of Bank Loans in AA by #	<b>85.00</b>	15.00	-	100%
% of Bank Loans in AA by \$	36.70	63.30	-	100%

Source: Loan sample; 2015 Dunn and Bradstreet data

The percentage of FNB consumer loans by number significantly exceeds the ratio of low-income households and exceeds the ratio of moderate-income households in the AA. FNB originated 38 percent of consumer loans by number to low-income households and 19 percent to moderate-income households, compared to the AA demographics of 26 percent low-income households and 15 percent moderate-income households.

Borrower Distribution of Consumer Loans in Pecos County AA								
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	26.26	<b>38.10</b>	15.43	<b>19.05</b>	16.63	23.80	41.67	19.05

Source: Loan sample; 2010 U.S Census data

### Geographic Distribution of Loans

Overall, FNB’s geographic distribution of loans reflects reasonable dispersion given the bank’s performance context, business strategy, and locations. To perform our analysis, we reviewed location information for 20 commercial loans and 28 consumer loans originated in the Pecos County AA during 2014, 2015, and year-to-date 2016.

The percentage of FNB commercial loans by number in moderate-income tracts is significantly below the ratio of AA businesses in moderate-income tracts. Only 25 percent of commercial loans were originated in moderate-income tracts, compared to 52 percent of AA businesses located in moderate-income tracts. Historical performance in moderate-income tracts has been diluted by the recent purchase of the Iraan branch, which contained a large volume of commercial loans. Iraan and the surrounding area are located in a middle-income tract, accounting for the shift from moderate-income tracts located closer to the Fort Stockton main office. After considering this performance context information, FNB’s results are reasonable.

Geographic Distribution of Business Loans in Pecos County AA								
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	51.84	<b>25.00</b>	14.87	50.00	33.29	25.00

Source: Loan sample; 2015 Dunn and Bradstreet Data

The percentage of FNB consumer loans by number is similar to the ratio of moderate-income tracts in the AA, reflecting reasonable dispersion. Our sample found that 48 percent of consumer loans are located in moderate-income tracts, compared to 49 percent of households located in moderate-income tracts.

<b>Geographic Distribution of Consumer Loans in Pecos County AA</b>								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>
Consumer	0.00	0.00	49.25	<b>47.62</b>	12.87	42.86	37.89	9.52

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

### **Responses to Complaints**

Neither the bank nor the OCC have received any CRA-related complaints during the evaluation period. This has a neutral effect on the bank’s CRA performance.

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

Pursuant to 12 CFR 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 AA, or 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.