



PUBLIC DISCLOSURE

May 2, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Evant
Charter Number 12739
115 S. Memory Lane
Evant, TX 76525

Office of the Comptroller of the Currency
225 E. John Carpenter Freeway, Suite 900
Irving, TX 75062

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 major factors that support this rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A majority of loan originations and purchases are within the bank's assessment area (AA).
- The distribution of residential loans among borrowers of different income levels exhibits a reasonable penetration. The distribution of loans to businesses of different sizes is excellent.
- The bank's geographic distribution of residential loans to the moderate-income census tracts reflects a reasonable dispersion. The bank's geographic distribution of business loans to the moderate-income geographies reflects an excellent dispersion.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) of The First National Bank of Evant (FNB or bank) assesses the bank's performance using interagency Small Bank procedures. The evaluation period ranges from November 8, 2011, the date of the prior PE, through May 2, 2016, the date of the current evaluation.

We identified commercial and commercial real estate loans (business loans) and residential real estate loans (HMDA loans) as the bank's primary loan products. The loan data information used for the PE covered the period from January 1, 2014 through December 31, 2015. To evaluate the bank's performance, we used a random sample of 20 business loans as well as the population of HMDA loans that were originated during this timeframe. The bank purchased no loans during the evaluation period. To ensure the data was reliable, we reviewed randomly selected HMDA loans originated during the review period. This evaluation is based on accurate data. We used the entire population of originated loans to complete Table 1 in this PE.

In our evaluation of the distribution of loans, we utilized the demographics and geographies related to the 2010 Census as it applies to the years 2014 and 2015.

We did not consider the activities of affiliates in this evaluation.

DESCRIPTION OF INSTITUTION

First National Bank is a full-service community bank located in Evant, Texas, which is approximately 120 miles southwest of Dallas and 60 miles west of Waco. Six shareholders, five of whom are directors, officers or both, directly own the bank. The

previous CRA evaluation, dated November 8, 2011, assigned a “Satisfactory” rating to the bank.

There are no legal or financial impediments to FNB’s ability to meet the credit needs of its AA. The bank offers a full-range of loan and deposit services to its customers.

As of December 31, 2015, net loans were 69 percent of FNB’s total assets of \$77 million. The following table is a summary of FNB’s loan portfolio:

The First National Bank of Evant Loan Portfolio Summary		
Loan Category	Dollar Volume (in thousands)	Percentage
Residential Real Estate	24,793	47%
Commercial and Commercial Real Estate	11,181	21%
Agriculture and Livestock – Mortgage and Production	9,078	17%
Consumer	5,459	10%
Construction and Other	2,513	5%
Total Loans	53,024	100%

Source: December 31, 2015 Report of Condition.

The bank maintains a main office and a branch office in the cities of Evant and Gatesville, Texas, respectively, both of which are located in Coryell County. Each facility is in a middle-income census tract (CT). The bank did not open or close any branches during the evaluation period.

Both offices are located in areas that make them accessible to bank customers. The branch office is situated less than two miles from one of the AA’s two moderate-income CTs. The main office and branch each have drive-up facilities. The branch office has a 24-hour automated teller machine (ATM). In Evant, there is an ATM located at the Elk Stop Convenience Store on Highway 281, one mile from the main office.

First National Bank’s banking programs and hours allow it to deliver needed banking and credit services to low- and moderate-income (LMI) areas and customers as well as small business owners, farmers and livestock operators across the AA. The bank offers mail, telephone, and on-line banking through its web site, www.fnb gatesville.com. The bank offers personal loans as small as \$500 to \$1,000 and residential loans as low as \$15,000 in order to meet the credit needs of qualified LMI customers.

DESCRIPTION OF ASSESSMENT AREA

The AA includes all of Lampasas County with five CTs and the 14 CTs in Coryell County that are not on the U.S. military base Fort Hood. These two adjacent counties are in the Killeen-Temple, Texas MSA. Although Bell County is also in the MSA, FNB excludes it from its AA. Fort Hood encompasses five CTs in Coryell County and several

in Bell County. There is a commercial bank situated on the base that has an exclusive operating agreement to serve all assigned military and civilian employees and their families.

Lampasas County has one moderate-income and four middle-income CTs. Coryell County is comprised of one moderate-income, 11 middle-income and two upper-income CTs. Per the 2015 Federal Financial Institutions Examination Council's (FFIEC) list of distressed or underserved nonmetropolitan middle-income geographies, none of the middle-income CTs are classified as distressed or under-served.

The bank has properly defined its AA in accordance with the technical requirements of the CRA regulation. The AA consists of whole CTs, does not arbitrarily exclude LMI CTs, and includes the CTs where the bank offices are located and the majority of its loans are originated. The AA meets requirements of the regulation, does not reflect illegal discrimination, and does not arbitrarily exclude any LMI geographies.

Competition in the AA is high with 11 total FDIC-insured depository institutions operating 22 offices. As of June 30, 2015, FNB's deposits in the AA totaled \$68 million, which is 7.09 percent of the market. The bank's deposits rank fifth out of 11 depository institutions. The top three depository institutions account for 63 percent of total deposits in the AA and include National Bank, Gatesville, Texas; First Texas Bank, Lampasas, Texas; and Extraco Banks, NA, Temple, Texas.

The bank operates in the cities of Gatesville and Evant, both located in Coryell County. With the exception of Gatesville and the city of Copperas Cove whose economy exists largely to serve Fort Hood, its personnel and their families, the AA is primarily directly or indirectly dependent on the agriculture industry. Gatesville, with a population of 15,751 at the 2010 Census, has a more diverse economy. Its largest employer is the *Texas Department of Corrections* that operates seven prisons housing 9,000 inmates. The prisons employ approximately 3,000 area residents on an \$8 million monthly payroll. Other leading employers in the Gatesville area include *Coryell Memorial Healthcare System*, *Gatesville Independent School District*, *Super Wal-Mart*, *Stanley automobile dealerships*, *Kalyn Siebert (a division of Heil Trailer International)*, and *Laerdal Medical Corporation* that manufactures medical training models and devices. The city of Evant population 426 at the 2010 Census is more dependent on the agriculture industry.

The following table provides a description of the AA based on 2010 census data, FFIEC information, and the Bureau of Labor Statistics data. The unemployment rate of Coryell County is 4.5 percent which is the same as the State of Texas rate and more favorable than the U.S. rate of 5.0 percent. The Lampasas County unemployment rate is 4.1 percent. Approximately 12 percent of the AA's households live below the federal poverty level¹ and 38 percent of the families are LMI.

¹ This figure may be skewed due to the prisoner population in the AA.

Demographic and Economic Characteristics of FNB AA	
<i>Population</i>	
Total Population	*80,213
Number of Families	18,927
% LMI Families	37.36%
Number of Households	25,125
% Persons Over 65	10.32%
<i>Businesses and Farms</i>	
Number of Businesses and Farms	4,216
Businesses and Farms with less than five employees	77.11%
Businesses and Farms with less than \$500,000 annual revenue	79.93%
<i>Geographies</i>	
Number of Census Tracts	19
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	10.53%
% Middle-Income Census Tracts	78.95%
% Upper-Income Census Tracts	10.53%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$55,480
2015 FFIEC-Adjusted MFI	\$59,100
<i>Economic Indicators</i>	
Unemployment Rate	
Coryell County	4.5%
Lampasas County	4.1%
% Households Receiving Social Security	25.82%
% Households Retired	26.96%
% Households Below Poverty Level	11.70%
Median Housing Value	\$100,928

Source: 2010 Census data, FFIEC updated income data and Bureau of Labor Statistics.

**Approximately 9,000 of the population are prison inmates.*

Information from bank management and a community contact indicate that the local economic conditions are stable, based on steady employment, farming, and no recent or projected business closings. Small business financing (start-up and working capital/expansion), small farm lending and consumer loans are identified as the primary credit needs in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

First National Bank's performance under the Lending Test is **Satisfactory**.

Loan-to-Deposit (LTD) Ratio

The bank's LTD ratio is reasonable given the bank's size, location, local competition, and the credit needs of the AA. This determination is based on the quarterly average LTD ratio of 68 percent from September 30, 2011 through December 31, 2015. During

this evaluation period, FNB's LTD ratio ranged from a low of 62 percent to a high of 75 percent.

Management considers the banks shown in the following table to be similarly situated institutions (SSI). All are community banks with less than \$1 billion in assets that actively offer similar loan products and have branch locations in the AA.

The quarterly average LTD ratio for each SSI is listed in the following table. Please note that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Financial Institutions	Total Assets (\$000's) (As of 12/31/2015)	Average Loan-to-Deposit Ratio
First National Bank of Bosque County	118,282	57.9%
First National Bank of McGregor	203,310	98.8%
Mills County State Bank	291,597	51.4%
Security Bank of Crawford	22,592	77.0%
The First National Bank of Evant	76,573	68.4%
The First National Bank of Moody	48,516	61.5%

Source: Institution Reports of Condition from September 30, 2011 to December 31, 2015.

Lending in Assessment Area

A majority of the number and dollar amount of FNB's loans were originated inside its AA. As depicted in Table 1 below, 85 percent of the number and 81 percent of the dollar amount of loans were originated inside the AA.

Table 1 - Lending in FNB AA										
Loan Type	Number of Loans					Dollars of Loans (\$000s omitted),				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	56	81.16	13	18.84	69	\$6,950	82.85	\$1,439	17.15	\$8,389
Home Improvement	3	60.00	2	40.00	5	\$147	62.29	\$89	37.71	\$236
Home Refinance	6	100.00	0	0.00	6	\$518	100.00	0	0.00	\$518
Business	240	85.71	40	14.29	280	\$9,132	79.91	\$2,296	20.09	\$11,428
Total	305	84.72	55	15.28	360	\$16,747	81.41	\$3,824	18.59	\$20,571

Source: Data reported under HMDA; Aggregate bank loan data.

As noted in the Scope of Examination section, we used the entire population of loans originated during the evaluation period to complete Table 1.

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

The distribution of home mortgage loans among borrowers of different income levels exhibits a reasonable penetration. The distribution of loans to businesses of different sizes is excellent.

As noted in the Scope of Examination, our analysis considered a sample of 20 business loans FNB originated inside the AA from January 1, 2014 through December 31, 2015.

As detailed in Table 2 below, in each loan category, the bank's 1-4 family real estate lending (HMDA reported loans) to low-income borrowers lags the percentage of families in those income levels. Low-income applicants typically have difficulty qualifying for conventional residential loans so a reduced level of lending is expected. The bank's distribution of home purchase loans to moderate-income borrowers at 25 percent, exceeds the demographic of 19 percent, and is considered excellent. Although the bank's distribution of home refinance loans to moderate-income borrowers at 17 percent is slightly below the demographic 19 percent it is still considered reasonable. Considering the lack of HMDA-reported home improvement lending to moderate-income borrowers, the bank's overall distribution of home mortgage loans is reasonable.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	18.41	5.36	18.95	25.00	22.35	21.43	40.30	48.21
Home Improvement	18.41	0.00	18.95	0.00	22.35	66.67	40.30	33.33
Home Refinance	18.41	0.00	18.95	16.67	22.35	33.33	40.30	50.00

Source: Data reported under HMDA; U.S. Census data.

As illustrated in Table 2A below, the percentage of loans by number to small businesses at 95 percent exceeds the percentage of small businesses at 82 percent in the AA. A small business is defined as a business with revenues of \$1 million or less. This information is indicative of a bank successfully servicing the credit needs of small businesses.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	81.98	2.18	15.85	100%
% of Bank Loans in AA by #	95.00	5.00	0.00	100%
% of Bank Loans in AA by \$	95.28	4.72	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Geographic Distribution of Loans

The AA contains no low-income CTs and two moderate-income geographies that comprise 11 percent of the total number of tracts. The bank’s geographic distribution of residential loans to the moderate-income CTs reflects a reasonable dispersion. The bank’s geographic distribution of business loans to the moderate-income geographies reflects an excellent dispersion. We did not identify any material or unexplained gaps in our analysis of lending in the AA.

As detailed in Table 3, FNB’s distribution of home purchase loans in the moderate-income CTs at nine percent slightly exceeds the percent of owner-occupied housing at eight percent and is considered reasonable. The bank’s penetration of home refinance lending in the moderate-income geographies at 17 percent far exceeds the demographic eight percent and is considered excellent. Considering the lack of HMDA-reported home improvement lending in the moderate-income CTs, FNB’s overall dispersion of home mortgage loans is reasonable.

Table 3 - Geographic Distribution of Residential Real Estate Loans in FNB AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	7.95	8.93	82.43	91.07	9.63	0.00
Home Improvement	0.00	0.00	7.95	0.00	82.43	100.00	9.63	0.00
Home Refinance	0.00	0.00	7.95	16.67	82.43	83.33	9.63	0.00

Source: Data reported under HMDA; U.S. Census data.

Table 3A compares the bank’s lending in the different income CTs to the percent of businesses located in those geographies. The volume of FNB’s business loans in the moderate-income CTs at 20 percent exceeds the percent of businesses in those geographies at 15 percent. This is an excellent distribution of business loans to the moderate-income CTs in the AA.

Table 3A - Geographic Distribution of Loans to Businesses in FNB AA								
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	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	0.00	0.00	14.57	20.00	79.26	75.00	6.17	5.00

Source: Loan sample; Dun and Bradstreet data.

Responses to Complaints

First National Bank has not received any complaints regarding its CRA performance during the evaluation period.

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.