



PUBLIC DISCLOSURE

March 17, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank in Port Lavaca
Charter Number 14821

1011 Highway 35 (By-Pass) South
Port Lavaca, Texas 77979

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 COMMUNITY REINVESTMENT ACT RATING:

This institution is rated Satisfactory

First National Bank in Port Lavaca (FNB) lending performance reflects a Satisfactory response to community credit needs in its assessment area (AA). Factors that support the overall rating include the following:

- The average loan-to-deposit ratio of 42 percent over the prior 20 quarters is reasonable given the bank's size, financial condition, market focus, competition, and lending opportunities in the AA.
- A substantial majority of our sample of loans, 89 percent by number and 77 percent by dollar volume, were originated within the AA.
- Lending activities to small businesses, consisting of businesses with revenues of \$1 million or less, reflects excellent penetration.
- Lending activities to businesses and residential mortgage loans reflects reasonable dispersion to borrowers located in moderate-income census tracts.
- There were no Community Reinvestment Act (CRA) related complaints during the evaluation period.

SCOPE OF EVALUATION

FNB was evaluated under the Small Bank CRA Evaluation Procedures, which includes a Lending Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AA through lending activities.

Our evaluation scope covered the time period from August 25, 2008, the date of the prior Performance Evaluation (PE), to March 17, 2014, the date of the current evaluation. We identified residential and commercial loans to be the bank's primary loan products originated from January 1, 2012 through December 31, 2013.

Residential mortgage loans represent 47 percent of the bank's portfolio and commercial loans represent 41 percent, followed by agriculture loans at 9 percent and consumer loans at 3 percent. To evaluate FNB's lending performance, we relied upon the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) for residential mortgage loans and selected a random sample of 45 commercial loans.

DESCRIPTION OF INSTITUTION

FNB is a \$233 million full service community bank headquartered in Port Lavaca, Calhoun County, Texas. FNB was chartered in 1957, and is majority owned by Bauer Management, Inc., a privately held company chartered in 1999.

FNB serves its community with one main office, two full service branch locations, and one temporary location. The main office is located in central Port Lavaca, with branches located in the cities of Seadrift, Port O'Connor, and Victoria, Texas. The Victoria branch opened in February 2014 and is currently operating at a temporary location awaiting the construction of the permanent building.

The bank operates three automated teller machines (ATMs) in the AA. A fourth ATM will be located at the Victoria branch upon completion. All locations have reasonable operating hours to meet the community's needs. FNB's website is available 24 hours a day, and offers multiple bank services, including online bill payment and balance inquiries. FNB also offers mobile banking, which allows customers to view current account balances and recent transactions, and the transfer of funds between FNB accounts.

The bank offers a full range of credit products within its AA, including consumer loans, real estate loans, agriculture loans, and commercial loans. As of December 31, 2013, total loans and leases were \$89 million.

Competition exists from other financial institutions in the AA. According to the Federal Deposit Insurance Corporation (FDIC) June 30, 2013 Market Share Report, there are 12 financial institutions in the AA. FNB has three branches in the AA with 7.5 percent of the market share. The largest deposit market share holders include the former First Victoria National Bank and Wells Fargo Bank, National Association.

The bank was rated Satisfactory at the last CRA evaluation. No legal impediments or other factors hinder the bank's ability to serve the credit needs of its AA.

Please review the bank's public file for additional information.

DESCRIPTION OF ASSESSMENT AREA

FNB designated all of the Victoria Metropolitan Statistical Area (MSA) as its AA. The AA consists of Calhoun and Victoria County. Per the 2010 U.S. Census, the AA had a population of 108,174. The weighted average of median housing cost is \$97,732. The Housing and Urban Development (HUD) updated the MSA median family income for 2013 to \$56,400.

The Office of the Comptroller of the Currency (OCC) conducted one community contact with a member of a local community organization in the bank's AA. The contact believes that the local institutions are doing a good job of meeting the general banking and credit needs of the community. The contact had favorable comments in regards to the performance of financial institutions in the community.

CALHOUN COUNTY

Calhoun County includes five census tracts (CTs). One tract is designated moderate-income, three tracts are middle-income, and one tract is upper-income. As of the 2010 U.S. Census, the county had a population of 21,381. FNB is headquartered in Port Lavaca, Texas.

Calhoun County is a coastal county, consisting of 540 square miles, on the mid-Texas coast where U.S. Highway 87 begins and the Guadalupe River ends. It borders the southwest to the southeast by major inland bays and the Gulf of Mexico. It is a popular site for birders and photography with more than 400 different species of birds and eight birding sites on the Texas Birding Trail. Calhoun County also offers other recreational activities such as fishing and duck hunting.

The major industries in Calhoun County are manufacturing, government, construction, education, and health care. Major employers in Calhoun County include Formosa Plastics Corp. Texas, Union Carbide Corp., Seadrift Coke LLC, Ineos USA LLC, Alcoa World Alumina LLC, Formosa Plastics Corp. America, Orion Marine Construction Inc., Braskem America, Formosa Utility Venture Ltd, and Nan Ya Plastics Corporation America. As of December 2013, the Bureau of Labor Statistics reported the unemployment rate in Calhoun County at 6.1 percent. The state unemployment rate is 5.7 percent.

VICTORIA COUNTY

Victoria County includes 22 CTs. Two tracts are designated as low-income, five tracts are moderate-income, 11 tracts are middle-income, and four tracts are upper-income. As of the 2010 U.S. Census, the county had a population of 86,793.

The Port of Victoria currently operates eight terminals, exporting approximately two million barrels of oil each month. There are plans to build another oil dock in the near future that will allow several barges to load at the same time. A barge parking facility is being constructed on a 1,800-acre site that the port owns, which will allow barges to be parked and stored for use.

Top employers in Victoria County are as follows: Victoria Independent School District (ISD), Formosa Plastic, Citizen's Medical Center, The Inteplast Group, DeTar Healthcare System, Dow-Seadrift Operations, Calhoun ISD, City of Victoria, and University of Houston-Victoria. As of December 2013, the Bureau of Labor Statistics reported the unemployment rate in Victoria County at 4.3 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB demonstrated Satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products originated since the previous CRA examination, specifically, residential mortgage loans and commercial loans. We relied on the total population of reported HMDA loans for residential mortgage performance. We selected a sample of commercial loans to determine the extent of lending within the AA, the distribution of loans by income/revenue level, and the geographic distribution of loans.

Loan-to-Deposit Ratio

FNB's quarterly average loan-to-deposit (LTD) ratio is 42 percent. This is reasonable compared to similarly situated banks. We compared FNB's average LTD ratio for the 20 quarters since the prior CRA evaluation, to other similarly situated banks in surrounding counties. The LTD ratios for the peer group banks ranged from 48 percent to 77 percent. FNB's quarterly LTD ratio has ranged from 35 percent to 55 percent since March 2009. The LTD ratio has decreased since the prior evaluation from 54 percent to 42 percent, as of December 31, 2013. This is due to an influx of deposits during the evaluation period, as well as low loan demand throughout the AA per management.

Lending in Assessment Area

FNB originated a substantial majority of its loans in its AA. We relied upon HMDA data for residential mortgage loans and a sample of commercial loans originated since the prior evaluation. The analysis included 152 loans. Overall, 88 percent of the number of loans and 77 percent of the dollar volume of loans were originated inside the AA. The following table reflects the distribution of loans, by number and dollar volume, which originated in and out of the AA.

Lending in Victoria AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	40	89%	5	11%	45	\$8,877	68%	\$4,089	32%	\$12,966
Residential	94	88%	13	12%	107	\$11,920	84%	\$2,224	16%	\$14,144
Totals	134	88%	18	12%	152	\$20,797	77%	\$6,313	23%	\$27,110

Source: HMDA Data and Loan Sample

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

Our loan sample reflected that the distribution of loans indicates a reasonable penetration among individuals of different income levels and to businesses of different sizes. FNB’s commercial lending levels slightly exceed the demographics of the area, while its residential lending falls below the demographics of the AA. The following narratives and tables document our findings.

Commercial Loans

The distribution of loans to businesses reflects excellent penetration to small businesses with revenues of \$1 million or less. Seventy-nine percent of the bank’s business loans, originated and purchased, were made to small businesses. This is considered excellent penetration compared to demographic data, which reflects 71 percent of the area’s businesses are considered small businesses. The following table shows the distribution of commercial loans among businesses of different sizes in the AA.

Borrower Distribution of Loans to Businesses in the Victoria AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.64%	3.59%	25.77%	100%
% of Bank Loans in AA by #	79.49%	5.13%	15.38%	100%
% of Bank Loans in AA by \$	91.61%	6.57%	1.82%	100%

Source: HMDA Data and Loan Sample.

Residential Real Estate Loans

HMDA data reflects that the level of residential mortgage lending is below the demographics of the AA. Of the HMDA loans reported, 12 percent of the loans were originated to moderate-income borrowers. This is near to the demographic comparator of moderate-income families of 16 percent. FNB also made 4 percent of the residential mortgage loans to low-income borrowers. Low-income families represent 23 percent of the AA. The HUD updated MSA Median Family income for 2013 was \$28,200 in the Victoria AA for low-income families. This demonstrates that it would be difficult for borrowers of this income category to qualify to purchase homes in the AA with a median housing cost of \$97,723. The following table depicts the distribution of our sample of Residential Mortgage loan originations in the AA.

Borrower Distribution of Residential Real Estate Loans in the Victoria AA								
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
Residential	23.27%	4.26%	16.02%	11.70%	19.54%	14.89%	41.17%	68.09%

Source: HMDA Data and U.S. Census

Note: 1.06% of borrowers did not report income.

Geographic Distribution of Loans

Overall, the distribution of loans reflects a reasonable dispersion throughout the bank’s AA. There are two low-income tracts in the bank’s AA located in Victoria County. Lending has not been prevalent in those tracts considering that less than three percent of the AA businesses and owner occupied housing is located in these tracts. It is reasonable that the bank has no lending activity in the low-income tracts as reflected in the tables that follow. The level of lending in moderate-income tracts in the bank’s AA is near to the demographic comparators for both residential mortgage loans and commercial loans as depicted below.

Geographic Distribution of Residential Real Estate Loans in the Victoria 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
Residential	2.83%	0.00%	16.38%	11.70%	56.42%	79.79%	24.37%	8.51%

Source: HMDA Data and U.S. Census

Note: 0.11% of Census tracts did not have tract income information available.

Geographic Distribution of Loans to Businesses/Farms in the Victoria AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
Commercial	2.42%	0.00%	19.59%	15.00%	54.03%	80.00%	23.85%	5.00%

Source: HMDA Data and U.S. Census

Responses to Complaints

FNB has not received any consumer complaints related to its CRA performance during this 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.