



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 24, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 14012

601 Guadalupe Street
George West, TX 78022

Office of the Comptroller of the Currency

San Antonio South Field Office
10001 Reunion Place, Suite 250
San Antonio, Texas 78216-4133

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

First National Bank's (FNB) lending performance reflects a satisfactory response to community credit needs in its assessment areas (AAs). This conclusion is based on the following results from our review:

- The loan-to-deposit (LTD) ratio is more than reasonable.
- The bank originated a majority of loans inside its AAs.
- Lending activities represent a reasonable penetration among individuals of different income levels and businesses of different sizes.
- Geographic distribution of loans represents an excellent dispersion.

SCOPE OF EXAMINATION

FNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities.

The lending test for FNB covers its performance from June 04, 2007 through July 30, 2012. FNB's primary loan products are commercial and residential real estate loans. To evaluate the bank's commercial and residential lending performance, we selected a sample of commercial and residential loans made from January 1, 2010 through June 30, 2012. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). HMDA data from 2010 and 2011 were tested and found to be reliable. Therefore, HMDA data was used to evaluate the bank's residential loan performance.

DESCRIPTION OF INSTITUTION

FNB, an intrastate bank headquartered in George West, Texas, was chartered in 1934 and is wholly owned by Live Oak Bancshares Corporation. FNB reported total assets of \$246 million and tier 1 capital of \$25 million at June 30, 2012. It has four offices: the main office located in George West and three branches located in Three Rivers, Floresville, and San Antonio, Texas. FNB provides full service loan and deposit products at all branches.

The main office and all three branches have a walk-in teller lobby, a drive-up motor bank, and an automated teller machine (ATM). All offices accept loan applications and all loans are closed in the office where the application originated. Additionally, customers can access their depository accounts through the internet, ATMs, and telebank. There have not been any significant changes to FNB's corporate structure, including merger or acquisition activities, since the last CRA examination that will impact this report. However, the bank is currently in the process of opening an additional full-service branch in Pleasanton, Texas.

At June 30, 2012, FNB reported total loans of \$146.5 million and a net loans and leases to total assets ratio of 59.5 percent. The following chart provides a detailed summary of the loan portfolio at June 30, 2012.

Loan Portfolio Summary by Loan Product June 30, 2012		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial	91,502	62.44
Residential	29,220	19.94
Agricultural / Farm	14,934	10.19
Consumer	10,768	7.35
Other Loans	118	0.08
Total	146,542	100

There are no legal, financial, or other factors that impede FNB’s ability to help meet the credit needs in its AA. The previous CRA examination, dated June 4, 2007, rated FNB “Satisfactory” under the small bank criteria.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB has three AAs which include the counties of Live Oak, Wilson, and Bexar. The defined AAs meet the requirements of the CRA regulation and no low- or moderate-income (LMI) tracts are arbitrarily excluded.

Live Oak County Assessment Area

The Live Oak County AA is comprised of the complete county. Live Oak County includes the towns of George West and Three Rivers and is located in South Texas. The county seat, George West, is located approximately 80 miles south of San Antonio. This AA does not contain any LMI areas.

Demographic Information for the Live Oak County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	4	0	0	100	0
Population by Geography	12,309	0	0	100	0
Owner-Occupied Housing by Geography	6,196	0	0	100	0
Businesses by Geography	1,080	0	0	100	0
Farms by Geography	71	0	0	100	0
Family Distribution by Income Level	3,103	21.43	15.34	21.98	41.25
Household Distribution by Income Level	4,226	23.07	14.79	18.53	43.61
Census Median Family Income (MFI)		\$36,380	Median Housing Value		\$53,465
HUD-Adjusted MFI: 2011		\$48,600	Families Below Poverty Level		15.64%
HUD-Adjusted MFI: 2010		\$46,500	Unemployment Rate		2.63%

The current local economy is good and expanding. Economic activity is currently being driven by the oil and gas industry with the county being located in the Eagle Ford Shale area. The retail and service industry is also doing well, benefiting from the influx of oil and gas employees.

Average unemployment is low. Competition from other financial institutions is moderate. The bank’s competitors include two local community banks and one regional bank branch.

We contacted a member of a local community organization who indicated that the community’s current economic condition is good and centered in oil and gas exploration and the retail and service industry. He indicated that there is a shortfall in affordable housing because of the influx of oil field workers. Based on this information he feels that the main opportunity for financial institutions to aid in community development is by providing loans for the construction of affordable owner occupied and rental housing.

Wilson County Assessment Area

The Wilson County AA is comprised of the complete county and includes the town of Floresville. Wilson County is located in South Texas and is part of the San Antonio-New Braunfels MSA. This AA meets the requirements of the regulation and does not arbitrarily exclude any LMI areas.

Demographic Information for the Wilson County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	9	0	11.11	88.89	0
Population by Geography	32,408	0	32.79	65.68	0
Owner-Occupied Housing by Geography	12,110	0	11.91	88.09	0
Businesses by Geography	3,520	0	13.13	86.88	0
Farms by Geography	225	0	5.33	94.67	0
Family Distribution by Income Level	8,870	19.33	18.93	20.90	40.83
Household Distribution by Income Level	11,028	21.45	16.67	19.39	42.49
Census Median Family Income (MFI)		\$44,951	Median Housing Value		\$72,925
HUD-Adjusted MFI: 2011		\$59,900	Families Below Poverty Level		12.20%
HUD-Adjusted MFI: 2010		\$57,800	Unemployment Rate		2.96%

The current local economy is good and expanding due primarily to the current oil and gas mining activity associated with the Eagle Ford shale formation. Economic activity in the area is relatively diverse with oil field related services, agriculture, service industries, and retail and wholesale businesses being the primary economic activities. Average unemployment for the area is low. Competition from other financial institutions is high. The bank’s competitors include one local community bank, two regional bank branches, two branches of large financial institutions, and a number of mortgage/ finance companies.

We contacted a member of a local community organization who indicated that the community’s current economic condition is good due to the oil field activity in the area. He indicated that there is a shortfall in hotel rooms and housing due to the abundance of oilfield workers. Based on this information he feels that the main opportunity for financial institutions to aid in community development is by providing residential and hotel construction loans.

Bexar County Assessment Area

The Bexar County AA is comprised of the census tract (CT) in which the San Antonio branch is located and all six adjacent CTs. Bexar County is located in South Texas and is part of the San Antonio-New Braunfels MSA. This AA meets the requirements of the regulation and does not exclude any LMI areas.

Demographic Information for the Bexar County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	7	0	100	0	0
Population by Geography	32,953	0	100	0	0
Owner-Occupied Housing by Geography	10,428	0	100	0	0
Businesses by Geography	2,021	0	100	0	0
Farms by Geography	31	0	100	0	0
Family Distribution by Income Level	8,061	32.01	27.35	20.58	20.06
Household Distribution by Income Level	9,876	31.08	22.90	21.82	24.20
Census Median Family Income (MFI)		\$44,951	Median Housing Value		\$44,497
HUD-Adjusted MFI: 2011		\$59,900	Families Below Poverty Level		21.26%
HUD- Adjusted MFI: 2010		\$57,800	Unemployment Rate		5.09%

The current local economy is good and stable. Economic activity is diverse. Some of the largest sectors include the healthcare, financial services, and military/ defense industries. Average unemployment for the area is low. Competition from other financial institutions is high and includes numerous branches of local, regional, and national financial institutions.

We did not perform a community contact for this AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

FNB’s performance under the lending test is satisfactory considering the performance context and needs of its AAs. Borrower distribution was given more weight than the geographic distribution. This was due to the fact that geographic distribution evaluations were not performed in two AAs because the Live Oak County AA contained only middle-income CTs and the Bexar County AA contained only moderate-income CTs.

Loan-to-Deposit Ratio

FNB’s net loan-to-deposit ratio is more than reasonable given the bank’s size, financial condition, and AA credit needs. The net loan-to-deposit ratio averaged 76.87 percent over the 21 quarters since the last CRA examination, with a low of 64.24 percent and a high of 86.26 percent.

The ratio compares favorably to the ratios of other community banks of similar sizes, locations, and product offerings. FNB ranks second among a total of six similarly situated banks serving

its AA. The other five banks had an average net loan-to-deposit ratio of 62.29 percent, ranging from 39.33 percent to 97.95 percent.

Lending in Assessment Area

A majority (55.77 percent) of the primary loan products originated within the AAs. The following table details the bank's lending within the AAs by number and dollar amount of loans that originated during the evaluation period.

Table 1 - Lending in Live Oak, Wilson, & Bexar Counties										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	54	55.67	43	44.33	97	3,195	36.29	5,609	63.71	8,804
Home Improvement	16	57.14	12	42.86	28	484	34.47	\$920	65.53	1,404
Refinance	4	36.36	7	63.64	11	450	16.94	2,206	83.06	2,656
Commercial	13	65.00	7	35.00	20	586	47.53	646	52.47	1,232
Totals	87	55.77	69	44.23	156	4,715	33.45	9,381	66.55	14,096

Source: Loan sample; data reported under HMDA.

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

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

Performance in the Live Oak County AA

The borrower distribution of loans in the Live Oak County AA is reasonable. More weight was given to the commercial loan distribution as it is the bank's primary product representing 62.44% of the bank's loans. Loans for the construction of affordable owner occupied and rental housing were identified as credit needs in this AA.

Commercial Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Ninety percent of the bank's loans to businesses originated and purchased during the loan sampling period were made to small businesses (defined as businesses with gross annual revenues of one million dollars or less). The following table shows the distribution of commercial loans among different sized businesses in the AA.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	63.89%	2.04%	34.07%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0%	100%
% of Bank Loans in AA by \$	77.43%	22.57%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

Residential Real Estate Loans

The distribution of residential loans reflects poor penetration among borrowers of different income levels. FNB made 6.98 percent of its residential loans to low-income borrowers during the evaluation period. The demographic data indicates that 21.43 percent of families in the AA are low-income. A mitigating factor in the penetration of low-income families is the fact that households below the poverty level represent 15.64% of the total households in the AA. Borrowers living below the poverty level could have a difficult time qualifying for residential loans.

Residential loans to moderate-income borrowers are poor. In particular, the percentage of home purchase and refinanced residential loans is poor. FNB made 2.33 percent of its home purchase loans and none of its refinanced residential loans to moderate-income borrowers. Home improvement loans to moderate-income borrowers are excellent, but this was given little weight as only 20 percent of the bank’s residential loans were for home improvement. This is considered poor penetration compared to demographic data that show 15.34 percent of the area’s families are considered moderate-income families. The following table shows the distribution of residential loans among borrowers of different income levels compared to the percent of families in each income category.

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	21.43	6.98	15.34	2.33	21.98	23.26	41.25	53.49
Home Improvement	21.43	0.00	15.34	18.18	21.98	18.18	41.25	63.64
Refinance	21.43	0.00	15.34	0.00	21.98	0.00	41.25	100.00

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

Performance in the Wilson County AA

The borrower distribution of loans in the Wilson County AA is reasonable. Residential real estate and hotel construction loans were identified as credit needs in this AA.

Commercial Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Seventy percent of the loans originated during the loan sampling period were made to small businesses. This is reasonable compared to demographic data that show 70.88 percent of the area’s businesses are considered small businesses. The following table shows the distribution of commercial loans among different sized businesses.

Table 2A - Borrower Distribution of Loans to Businesses in Wilson County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.88%	0.99%	28.13%	100%
% of Bank Loans in AA by #	70.00%	30.00%	0%	100%
% of Bank Loans in AA by \$	63.20%	36.80%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

Residential Real Estate Loans

The distribution of residential loans reflects reasonable penetration among borrowers of different income levels. The bank’s level of lending to LMI borrowers is above the demographic comparator in three of the six areas. More weight was given to home purchase loans as they make up 58.82 percent of all residential loans. The distribution of refinanced residential loans reflects poor penetration among LMI borrowers, but this was given little weight as only 17.65 percent of the bank’s residential loans were refinanced residential loans. A mitigating factor in the penetration of home improvement and refinanced residential loans to low-income borrowers is the fact that households below the poverty level represent 12.20% of the total households in the AA. Borrowers living below the poverty level could have a difficult time qualifying for residential loans.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Wilson County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
Home Purchase	19.33	20.00	18.93	20.00	20.90	30.00	40.83	20.00
Home Improvement	19.33	0.00	18.93	25.00	20.90	50.00	40.83	25.00
Refinance	19.33	0.00	18.93	0.00	20.90	33.33	40.83	66.67

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

Performance in the Bexar County AA

The borrower distribution of loans in the Bexar County AA is reasonable. More weight was given to the commercial loan distribution as it is the bank’s primary product representing 62.44% of the bank’s loans. There were also only two residential loans made in this AA during the evaluation period. Small business loans were identified as a credit need in this AA.

Commercial Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. All of the loans to businesses that originated during the loan sampling period were made to small businesses. This is considered excellent compared to demographic data that shows 65.12 percent of the area’s businesses are considered small businesses. The following table shows the distribution of commercial loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Businesses in Bexar County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65.12%	2.18%	32.71%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

Residential Real Estate Loans

The distribution of residential loans reflects poor penetration among borrowers of different income levels. FNB made none of its residential loans to LMI borrowers during the evaluation period. The demographic data indicates that 32.01 percent of families in the AA are low-income and 27.35 percent of families in the AA are moderate-income. A mitigating factor in the penetration of low-income families is the fact that households below the poverty level represent 21.26% of the total households in the AA. Borrowers living below the poverty level could have a difficult time qualifying for home loans. There were also only two residential loans made in this AA during the evaluation period.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Bexar County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
Home Purchase	32.01	0.00	27.35	0.00	20.58	100.00	20.06	0.00
Home Improvement	32.01	0.00	27.35	0.00	20.58	100.00	20.06	0.00
Refinance	32.01	0.00	27.35	0.00	20.58	0.00	20.06	0.00

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

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the bank’s AAs given identified credit needs. No significant lending gaps were found within the bank’s AAs.

Performance in the Live Oaks County AA

A geographic distribution evaluation was not conducted in this AA since the county only contains middle-income CTs.

Performance in the Wilson County AA

The bank’s geographic distribution of loans reflects excellent dispersion throughout census tracts of different income levels.

Commercial Loans

The bank’s geographic distribution of business loans reflects an excellent dispersion throughout the census tracts of different income levels. Twenty five percent of the loans to businesses in this AA were made in the bank’s one moderate-income CT. This is considered excellent compared to the demographic data.

Table 3A - Geographic Distribution of Loans to Businesses in Wilson County 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	13.13	25.00	86.88	60.00	0.00	15.00

Source: Loan sample; Dunn and Bradstreet data.

Residential Real Estate Loans

The bank’s geographic distribution of home loans reflects excellent dispersion throughout census tracts of different income levels. Twenty percent of the home purchase loans and 50 percent of the home improvement loans in this AA were made in the bank’s one moderate-income CT. This is considered excellent compared to the demographic data. None of the refinanced residential loans in this AA were made in the moderate-income CT, but this was given little weight as only 17.65 percent of the residential loans in this AA are refinanced residential loans.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Wilson County 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	11.91	20.00	88.09	80.00	0.00	0.00
Home Improvement	0.00	0.00	11.91	50.00	88.09	50.00	0.00	0.00
Refinance	0.00	0.00	11.91	0.00	88.09	100.00	0.00	0.00

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

Performance in the Bexar County AA

A geographic distribution evaluation was not conducted in this AA since the AA contains only moderate-income CTs.

Responses to Complaints

FNB has not received any CRA-related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.