



## PUBLIC DISCLOSURE

August 08, 2016

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Bastrop  
Charter Number 4093

489 Highway 71 West  
Bastrop, TX 78602

Office of the Comptroller of the Currency  
San Antonio North Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 78216-4165

**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 the safe and sound operation of the institution. The 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: Outstanding**

First National Bank of Bastrop's (FNBB) lending performance reflects satisfactory response to meeting community credit needs in its assessment area (AA). Major factors that support the rating:

- The quarterly average loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition and AA credit needs.
- A majority of loans, by number and dollar volume, originated inside the AA.
- The distribution of loans reflects reasonable penetration among individuals of different income levels, including low- or moderate-income (LMI) levels, and excellent penetration among businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- The bank's community development (CD) performance demonstrates excellent responsiveness to CD needs of its AA through CD loans, qualified investments, and CD services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for CD in the bank's AA.

**Scope of Examination**

We evaluated FNBB's performance using interagency Intermediate Small Bank CRA procedures that included a lending test and a CD test. The evaluation scope covered the period from July 18, 2013, the date of the prior PE, through August 8, 2016, the date of the current evaluation. We analyzed lending activity during this evaluation period and identified business loans, including real estate, as a primary product, followed by residential mortgage loans.

To evaluate the distribution of loans, we used the demographics and geographies related to the 2010 Census as it applies to the years from 2014 through 2015. The 2013 Office of Management and Budget (OMB) Metropolitan Area geographic boundary revisions (referred to as the 2014 OMB Changes) became effective for CRA purposes on January 1, 2014. Since the changes did not affect FNBB's AA delineation, this PE contains a single analysis of loan data for the 2014 through 2015 evaluation period.

We reviewed Internal Audit work papers that tested Home Mortgage Disclosure Act (HMDA) data for residential mortgages from January 1, 2014 through December 31, 2015 to verify the accuracy of data and found auditors selected appropriate sample sizes. We determined 2014 and 2015 HMDA data was reliable to use for this evaluation. To evaluate business loans, we selected a sample of 20 loans in the AA. We used the original sample to determine lending inside the AA, and then replaced loans outside the AA with loans inside the AA to assess borrower distribution and geographic distribution.

To evaluate CD activities, we reviewed the information management provided for CD loans, CD services, and qualified investments during the evaluation period to ensure it met the regulatory definition for CD. We excluded from our analysis any item that did not meet the definition or purpose of CD.

## Description of Institution

FNBB, a full-service, intrastate bank headquartered in Bastrop, Texas, is an independently owned institution and has no holding company. FNBB operates six locations: the main office and three branches in Bastrop, one branch in Elgin, and one branch in Smithville. Each location has convenient customer hours with most open on Saturday morning, an onsite automated teller machine (ATM), and except for the main office, a drive-up facility. FNBB has not opened or closed any branches since the prior evaluation.

FNBB offers a variety of traditional loan and deposit products. It also offers CallFirst, a 24-hour banking service that customers can use for balance inquiries, rate information, funds transfer capabilities, and location/hours information. In addition, customers can access the bank's website (<http://www.fnbbastrop.com>) to pay bills, access/use mobile banking applications, and access secure messaging capabilities.

At June 30, 2016, FNBB reported total assets of \$501.6 million. Tier 1 capital totaled \$51.7 million and total assets during the quarter averaged \$492.2 million resulting in a Tier 1 leverage ratio of 10.52%. Net loans represented 67% of total deposits and 58% of total assets. As shown in the following table, business (commercial) loans comprise the majority of the loan portfolio, followed to a lesser degree by residential loans.

<b>Loan Portfolio Composition as of June 30, 2016</b>		
<b><i>Loan Category</i></b>	<b><i>Dollar Volume (000's)</i></b>	<b><i>Percentage</i></b>
Business (Commercial)	146,658	50%
Residential	91,195	31%
Agricultural/Farm	43,360	15%
Consumer	10,671	4%
Other	1,065	0%
Total:	292,949	100%

Source: June 30, 2016 Call Report; Other loans represent 0.4% of loan portfolio

Based on its financial condition and size, there are no legal, financial, or other factors that inhibit FNBB's ability to meet credit needs in its AA. FNBB's current business strategy is to continue offering commercial loans as its primary loan product. The prior CRA examination, dated July 18, 2013, assigned an overall "Satisfactory" rating to the bank's CRA performance.

## Description of Assessment Area

FNBB has defined Bastrop County as its AA. Bastrop County is part of the Austin-Round Rock Metropolitan Statistical Area (MSA) and is comprised of ten census tracts (CTs). Five are designated moderate-income and five are middle-income. There are no low- or upper-income CTs in the AA, and none of the middle-income CTs are designated distressed or underserved. The county includes several communities, the largest are the cities of Bastrop, Elgin, and Smithville. Bastrop is the second oldest incorporated city in Texas and serves as the county seat. The AA meets regulatory requirements, does not arbitrarily exclude any LMI geographies, and does not reflect discrimination. The following table reflects information specific to the AA.

Demographic Information for Bastrop County Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (CTs)	10	0%	50%	50%	0%
Population by Geography	74,171	0%	45%	55%	0%
Owner-Occupied Housing Units by Geography	28,323	0%	40%	60%	0%
Businesses by Geography	4,419	0%	32%	68%	0%
Farms by Geography	253	0%	29%	71%	0%
Family Distribution by Income Level	18,815	25%	23%	23%	29%
Household Distribution by Income Level	25,214	27%	17%	21%	35%
Census Median Family Income (MFI)	\$71,602	Median Housing Value		\$121,082	
HUD – Adjusted MFI: 2014	\$75,400	Households Below Poverty Level (%)		12.58%	
HUD – Adjusted MFI: 2015	\$76,800	Unemployment Rate (%)		4.06%	
HUD – Adjusted MFI: 2016	\$77,800				

Source: 2010 US Census, 2014 – 2016 FFIEC updated MFI, and Bureau of Labor Statistics

As previously noted, FNBB has six offices. The main office and the three Bastrop branches are located in middle-income CTs. The Elgin and Smithville branches are located in moderate-income CTs. All six offices are readily accessible to the population of the AA.

Bastrop County is a highly competitive banking environment that includes one large national bank, one large regional bank, and several smaller community banks. The FDIC June 30, 2016 Deposit Market Share Report reflects 10 financial institutions operate 19 offices within Bastrop County. FNBB ranks first with a deposit market share of 50%. Prosperity Bank, a state bank, ranks second with a 20% market share.

Services that include, but are not limited to, education, health care, social assistance, food services, recreation, and administrative, represent the largest industry (49%) in the AA followed by retail trade with 14%. Of the 4,419 total businesses in the AA, 93% are single location businesses with 78% of the businesses reporting fewer than four employees.

According to the US Bureau of Labor Statistics, the seasonally-adjusted unemployment rate for the nation was 4.9% as of June 2016, while the unemployment rate for the state of Texas was 4.5%. The Bastrop County unemployment rate of 4.1% is lower than both the Texas and national unemployment rates.

We discussed the needs of the community and the bank's performance with a local community contact, who identified financial literacy as the highest need in the AA since most clients are unbanked and living paycheck to paycheck, resulting in poor/delinquent payment history that prevents clients from opening accounts or getting loans. In addition, the contact indicated that Bastrop County has seen substantial growth in new housing and commercial development, mainly to the central and west sides of the county, in the past few years. This growth could not happen without loans to small businesses. The contact said local area banks are the biggest supporters in providing financial literacy programs to LMI individuals and loans to small businesses.

## Conclusions with Respect to Performance Tests

### LENDING TEST

FNBB's performance under the Lending Test is "Satisfactory."

### Loan-to-Deposit Ratio

FNBB's quarterly average LTD ratio is reasonable given its size, local competition, and credit needs within the AA, and meets the standards for satisfactory performance. During the evaluation period, the LTD ratio ranged from a low of 53% to a high of 63% with a quarterly average of 58%. To assess FNBB's performance, we compared its quarterly average LTD ratio to six similarly situated institutions. As reflected in the following table, the average LTD ratios for the six institutions ranged from 36% to 71%, no ranking is intended or implied. The overall quarterly average LTD ratio for the six institutions is 49%.

Institution	Total Assets (\$000's) As of 3/31/2016	Average Quarterly LTD Ratio As of 3/31/2016
Classic Bank, N.A.	300,995	71%
Frontier Bank of Texas	146,767	66%
<b>First National Bank of Bastrop</b>	<b>496,502</b>	<b>58%</b>
Roscoe State Bank	153,501	42%
Union State Bank	471,637	40%
Citizens National Bank	441,049	39%
First State Bank	602,823	36%

Source: Quarterly Call Report data from June 30, 2013 through March 31, 2016

### Lending in Assessment Area

FNBB originated a majority of loans inside its AA, meeting the standard for satisfactory performance. The following table reflects the percentages, by number and dollar volume, of loans originated inside the AA.

Lending in Bastrop County Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	568	74%	202	26%	770	56,742	69%	25,580	31%	82,322
Business	14	70%	6	30%	20	1,510	57%	1,132	43%	2,642
Totals:	582	74%	208	26%	790	58,252	69%	26,712	31%	84,964

Source: 2014 and 2015 HMDA data, Business loan sample

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

The distribution of loans represents reasonable penetration to businesses of different sizes and to individuals of different income levels. Business loans represented the largest percentage of the loan portfolio during the evaluation period. As such, we weighed business loan performance more heavily in our conclusion.

#### Residential Loans

For the distribution of residential loans, we compared loans reported under HMDA to demographic data from the 2010 Census. As shown in the following table, the distribution of loans to low-income borrowers is adequate and reflects reasonable penetration. The distribution of loans to moderate-income borrowers exceeds demographic data and reflects excellent penetration. Overall distribution to LMI borrowers is good and reflects reasonable penetration.

Borrower Distribution of Residential Loans in Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential	25%	17%	23%	26%	23%	25%	29%	32%

Source: 2014 and 2015 HMDA data, 2010 Census data

*Business Loans*

For the distribution of business loans, we compared data from our business loan sample to demographic data from Dun & Bradstreet. As reflected in the following table, by number, 95% of the loans originated to businesses with annual revenues equal to or less than \$1 million. Demographic data reflects 83% of the businesses in the AA have annual revenues equal to or less than \$1 million (15% of businesses did not report revenue). The distribution of business loans reflects excellent penetration to businesses of different sizes.

<b>Borrower Distribution of Loans to Businesses in Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	83%	2%	15%	100%
% of Bank Loans in AA by #	95%	5%	0%	100%
% of Bank Loans in AA by \$	60%	40%	0%	100%

Source: Business loan sample, Dun & Bradstreet data

**Geographic Distribution of Loans**

The geographic distribution of loans reflects reasonable dispersion throughout the AA. Business loans represented the largest percentage of the loan portfolio during the evaluation period. As such, we weighed business loan performance more heavily in our conclusion.

*Residential Loans*

The geographic distribution of residential loans is adequate and reflects reasonable dispersion. As reflected in the following table, the percentage of loans to borrowers in moderate-income CTs is somewhat lower than the percentage of owner-occupied housing in the moderate-income CTs. There are no low-income CTs in the AA.

<b>Geographic Distribution of Residential Loans in Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans						
Residential	0%	0%	40%	30%	60%	70%	0%	0%

Source: 2014 and 2015 HMDA data, 2010 Census data

*Business Loans*

The geographic distribution of loans to businesses is good and reflects reasonable dispersion. As reflected in the following table, the percentage of loans to businesses in moderate-income CTs is near to the percentage of businesses located in these CTs. There are no low-income CTs in the AA.

Geographic Distribution of Loans to Businesses in Assessment Area								
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
Business	0%	0%	32%	30%	68%	70%	0%	0%

Source: Business loan sample, Dun & Bradstreet data

**Responses to Complaints**

FNBB did not receive any complaints related to its CRA performance during the evaluation period.

**COMMUNITY DEVELOPMENT TEST**

FNBB’s CD activity through CD lending, investments, and services reflects excellent responsiveness to CD needs of its AA.

**Number and Amount of Community Development Loans**

The level of CD lending reflects excellent responsiveness to CD needs of the AA. FNBB originated eight CD loans totaling \$7.9 million during the evaluation period. Four loans totaling \$5.8 million provided funds for businesses to retain and create new jobs. The largest loan (\$3.9 million) provided funds to construct a new restaurant in the AA and created new jobs at LMI levels. Four loans totaling \$2.1 million met the definition of community service. The largest loan (\$1.25 million) provided funds to a local transportation system that helps individuals, including LMI individuals, travel between several areas for jobs, school, and entertainment. Through these loans, FNBB has made a positive impact on the CD needs in its AA.

**Number and Amount of Qualified Investments**

The level of qualified investments reflects adequate responsiveness to CD needs of the AA. FNBB made 42 qualified donations totaling \$58.3 thousand to CD organizations that provide services targeting LMI families and individuals in the AA. The organizations include, but are not limited to, Bastrop County Emergency Food Pantry, Bastrop County Empty Bowl Project, Smithville Food Pantry, Children’s Advocacy Center, Family Crisis Center, Smithville Empty Bowl Project, Bastrop County Long Term Recovery, Bastrop

Child Protective Service, Mission U Too, Blue Santa, Pink Santa, and Habitat for Humanity. During the evaluation period, FNBB did not make any equity or debt investments in the AA.

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

The level of CD services reflects excellent responsiveness to CD needs of the AA. FNBB is a partner in the national Save for America Savings Program. As partner, FNBB enrolls local schools and provides no-fee depository accounts for student use to encourage saving. FNBB has enrolled elementary schools in the Bastrop Independent School District (ISD), the Elgin ISD, and the Smithville ISD. Students in these schools are economically disadvantaged. FNBB officers and employees make periodic financial literacy presentations and provide information about the program during career day events and bank tours. As of May 16, 2016, FNBB had 2,012 accounts totaling \$784 thousand in the program.

FNBB began using Business Manager, a product designed to expedite invoice payments and meet credit needs of small businesses, in April 2014. Since then, the product has helped seven businesses expedite invoice payments of \$33 million. FNBB also helps small businesses with SBA lending products. Since the last evaluation in July 2013, FNBB lenders have assisted in the origination of five SBA loans totaling \$5.9 million.

### **Responsiveness to Community Development Needs**

FNBB demonstrates excellent responsiveness to meeting CD needs in the AA as evidenced by the level of CD loans and CD services. The main office and the five branch offices are readily accessible to all portions of the population, including individuals with low- or moderate-income levels. The Elgin and Smithville branches are located in moderate-income CTs in the AA.

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

Pursuant to 12 CFR 25.28(c), or 12 CFR 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 AA 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.