



PUBLIC DISCLOSURE

November 17, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 23182

118 North Garfield
Rotan, TX 79546

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.

First National Bank of Rotan (FNB) has a satisfactory record of meeting community credit needs based on the following:

- FNB's loan-to-deposit ratio is reasonable when compared to banks of similar size and characteristics in or near the assessment area (AA). The quarterly average net loan-to-deposit ratio is 48 percent.
- A substantial majority of FNB's loans are located within the bank's AA. Based on a sample of 50 loans, 92 percent of the number and 97 percent of the dollar volume of loans were to borrowers located within the AA.
- FNB has a reasonable penetration of loans to farms of different sizes, and individuals of different income levels (including low- and moderate-income).

SCOPE OF EXAMINATION

FNB was evaluated under the Small Bank performance criteria, including loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes, geographic distribution, and responses to CRA-related complaints.

To evaluate FNB's lending performance, we selected a sample of loans from the bank's primary loan types. Primary loan types are those products that have been originated at the highest percentage by dollar and/or number of loans. FNB's primary loan products are agricultural loans by dollar amount and consumer loans by number. We sampled 25 agricultural and 25 consumer loans originated between January 1, 2012 and September 30, 2014.

DESCRIPTION OF INSTITUTION

FNB is a community bank located in Rotan, Texas approximately 225 miles west of Dallas, 65 miles northwest of Abilene, and 125 miles southeast of Lubbock. FNB is an intrastate bank with one banking office that includes a drive-up facility. The bank is a wholly owned subsidiary of Rotan Bancshares, Inc., a one-bank holding company. There was no merger or acquisition activity during the evaluation period.

FNB's provides traditional commercial and consumer banking products and related financial products. Bank lobby and drive-through services are provided Monday through Friday. The bank provides customers access to their accounts through its website. Internet services include account balance inquiries and account transfer activities.

As of September 30, 2014, FNB had total assets of \$75.3 million, with net loans and leases comprising 47 percent of this total. The bank's loan products include agricultural, commercial, consumer, and real estate. The following table depicts FNB's loan portfolio composition.

Loan Portfolio Composition as of September 30, 2014				
Loan Type	\$(000)	%	# of Notes	%
Agricultural and Agricultural Real Estate	22,284	61.20%	496	30.08%
Commercial and Commercial Real Estate	8,857	24.33%	264	16.00%
Residential Real Estate	786	2.16%	28	1.70%
Consumer	3,414	9.38%	853	51.74%
Other	1,068	2.93%	8	0.48%
TOTAL	36,409	100.00%	1,649	100.00%

Source: Loan Trial Balance

Management and the Board's primary strategy is to serve the agricultural, commercial, consumer, and real estate customers in Fisher County. Based on FNB's financial condition, local economy, product offerings, and competition, the bank has the ability to meet the various credit needs in its community. FNB was rated Satisfactory at the previous CRA examination on August 12, 2009. FNB has no legal or financial circumstances that impede the bank's ability to help meet the credit needs in its AA.

DESCRIPTION OF ASSESSMENT AREA

FNB has designated Fisher County as its AA. Roby is the county seat with other principal towns including Rotan and McCaulley. The AA meets regulatory requirements with no low- or moderate-income areas arbitrarily excluded. Demographic information about the AA is listed below.

Demographic and Economic Characteristics of FNB Rotan AA	
Population	
Number of Families	3,974
Number of Households	1,673
Geographies	
Number of Census Tracts	2
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	50.00%
% Upper-Income Census Tracts	50.00%
Median Family Income (MFI)	
2010 MFI for AA	\$48,160
2013 HUD-Adjusted MFI	\$50,500
2012 HUD-Adjusted MFI	\$50,200
2011 HUD-Adjusted MFI	\$49,500
Economic Indicators	
Unemployment Rate	3.13%
2010 Median Housing Value	\$51,108
% of Households Below Poverty Level	13.15%

Source: 2010 Census data and HUD updated income data

The AA includes two census tracts, one middle-income and one upper-income. About 13 percent of the households in the AA are below the poverty level. Federal agencies have designated one census tract (9504) as an underserved middle-income nonmetropolitan tract.

Primary competition in the AA is from one financial institution, a branch of a regional bank. The June 30, 2014, FDIC Deposit Market Share Report for Fisher County shows FNB to have the largest deposit market share with 79.10 percent.

The local economy is based on agriculture and livestock. Cotton farming is the number one agricultural industry in Fisher County. Other major employment opportunities include education, health, and social services. Local economic conditions are good and remain stable with a low unemployment rate of 3.13 percent.

One community contact was used to provide an independent view of how local institutions are meeting community credit needs and providing support to the local economy. We discussed public perceptions, community development needs, and credit needs. No unmet credit needs or opportunities were identified. Local institutions are actively involved in community development, and public perception remains positive.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNB is reasonable given the bank’s size, financial condition, and AA credit needs. The bank’s quarterly average net loan-to-deposit ratio from June 30, 2009 through June 30, 2014 is 48.12 percent. During the evaluation period, FNB’s loan-to-deposit ratio ranged from a low of 31.61 percent to a high of 64.30 percent. The average ratio for similarly situated banks over the same period was 42.93 percent.

The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the AA is depicted below. Similarly situated banks are those between \$50-\$100 million in total assets located in counties adjacent to Fisher County. These banks are listed alphabetically by city, and no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000s) as of 6/30/14	Quarterly Average Net Loan-to-Deposit Ratio
First National Bank of Rotan	73,780	48.12
The First National Bank of Anson	58,964	46.34
The First National Bank of Aspermont	61,237	16.74
Hamlin National Bank	98,650	59.69
Haskell National Bank	72,894	48.95

Source: Institution Reports of Condition from June 2009 to June 2014

Lending in Assessment Area

FNB’s lending in its AA exceeds the standards for satisfactory performance. A substantial majority of the bank’s loans were made within its AA, with 92 percent of the number of loans and 97 percent of the dollar amount of loans in the sample originated within the AA. The breakdown by loan category is depicted in the following table.

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	22	88.00%	3	12.00%	25	\$129	83.15%	\$26	16.85%	\$155
Agricultural	24	96.00%	1	4.00%	25	\$7,059	97.24%	\$200	2.76%	\$7,259
Totals	46	92.00%	4	8.00%	50	\$7,188	96.95%	\$226	3.05%	\$7,414

Source: loan sample

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

The overall borrower distribution for the AA is considered reasonable. The distribution of loans reflects a reasonable penetration among farms of different sizes and individuals of different income levels. We put more weight on the bank’s agricultural lending performance because of the high number and amount of loans originated.

The distribution of loans to farms of different sizes is reasonable. FNB originated 92 percent of its agricultural loans to farms with annual revenues of \$1 million or less. This is close to the demographic, which shows that 99 percent of AA farms are small. We also reviewed the distribution of the bank’s loans by size, and found that 60 percent of agricultural loans were originated in amounts less than or equal to \$250,000, providing additional support for a reasonable distribution of loans to small farms.

Borrower Distribution of Loans to Farms in AA				
Business Revenues (Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Farms	99.26	0.74	0.00	100%
% of Bank Loans in AA by #	92.00	8.00	0.00	100%
% of Bank Loans in AA by \$	75.68	24.32	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

Borrower Distribution of Loans to Farms by Loan Size in AA				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans (000s)	Percent of Dollar Volume
\$0 - \$100,000	2	8.00	\$143	1.98
\$100,001 - \$250,000	13	52.00	\$2,251	31.00
\$250,001 - \$500,000	7	28.00	\$2,330	32.10
Over \$500,000	3	12.00	\$2,535	34.92

Source: Loan sample.

The distribution of loans to individuals of different income levels is reasonable. The bank does not routinely collect income information for consumer loans, so 60 percent of the sample did not include income information. Therefore, we reviewed loan size as a proxy for borrower income as low- or moderate-income borrowers would be more likely to need smaller loans. Loans under \$1,000 were 24 percent of the sample and loans between \$1,000 and \$5,000 were another 44 percent of the sample, supporting a reasonable distribution of loans to both low- or moderate-income borrowers. Based on 2010 Census Data, 27.50 percent of households in the AA are low-income and 15.78 percent are moderate-income. In addition, 60 percent of the borrowers who did report income information were low-income, which also supports a reasonable distribution.

Borrower Distribution of Loans to Consumers by Loan Size in AA				
Loan Size	Number of Loans	Percent of Number	Dollar Volume of Loans (000s)	Percent of Dollar Volume
\$0 - \$1,000	6	24.00	3,296	2.13
\$1,001 - \$5,000	11	44.00	32,273	20.82
\$5,001 - \$15,000	4	16.00	31,417	20.27
Over \$15,000	4	16.00	88,013	56.78
	25	100.00	154,999	100.00

Source: Loan sample.

Geographic Distribution of Loans

Since there are no low- or moderate-income census tracts, analysis of geographical distribution was not meaningful and was not performed. No unexplained, conspicuous lending gaps were identified.

Responses to Complaints

No complaints relating to CRA performance have been received by FNB during the evaluation period, and this has a neutral impact on the bank’s 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 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.