



PUBLIC DISCLOSURE

October 1, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Mertzton
Charter Number 9810

106 S. Broadway
Mertzton, Texas 76941

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 safe and sound operation of the institution. This evaluation is not, and should not 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.

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Overall CRA Rating: Satisfactory

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

Major factors supporting the rating include:

- While the bank's quarterly average loan-to-deposit (LTD) ratio is lower than most banks of similar size and financial capacity, it is reasonable considering the bank's operating environment, risk profile, and continued deposit growth. Deposit growth associated with the oil and gas industry remains strong and continued to outpace loan growth during the evaluation period.
- A substantial majority of the bank's loans, by number and dollar volume, originated inside the bank's assessment area (AA) during the evaluation period.
- The distribution of loans reflects reasonable penetrations among borrowers of different income levels, and businesses and farms of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- Community development (CD) activities reflect excellent responsiveness to AA needs through CD lending, investments, and services.
- There have been no complaints or fair lending concerns with respect to the bank's performance under the CRA.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a Residential, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Residential Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing).

Residential Loans: Such loans include home purchase, home improvement and refinancing, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business (es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

The First National Bank of Mertzon (FNB-Mertzon) is an intrastate community bank headquartered in Mertzon, Texas. As of June 30, 2018, FNB-Mertzon reported total assets of \$391 million and operated with no holding company. The bank was organized in 1910 with a sole location in Mertzon, Texas, and branched into San Angelo, Texas in 1989. Mertzon, the county seat of Irion County, Texas, is located 26 miles southwest of San Angelo and 188 miles northwest of San Antonio. The bank currently operates the main office in Mertzon and two branches in San Angelo. Each location has a drive-up facility and an automated teller machine (ATM) or one within close proximity. One branch office and an ATM are located in the AA's only low-income CT.

FNB-Mertzon has identified the entire San Angelo MSA, which includes Irion County and Tom Green County as its AA. According to the FDIC's June 30, 2018, Deposit Market Share Report, FNB-Mertzon ranked fourth among 15 FDIC-insured financial institutions in the San Angelo MSA with 14 percent of the MSA deposits. Major competitors in the market include First Financial Bank, Wells Fargo Bank, and Crockett National Bank. FNB-Mertzon is the only bank in rural Irion County.

FNB-Mertzon reported net loans of \$61 million, on June 30, 2018, representing approximately 16 percent of total assets. It also reported tier one capital of \$28 million, which represents about 7 percent of total assets. The bank offers a variety of traditional loan products, focusing primarily on business, agriculture, and real estate loans. While the bank offers residential mortgage loans, it refers requests for long term fixed rate loans to other local institutions that specialize in this loan product. FNB-Mertzon also offers consumer loans and credit cards to its customers. The bank's total loan portfolio has increased slightly from \$59 million at the previous evaluation. Loan origination volumes during the evaluation period have approximated \$60 million, but the size of the portfolio has been negatively impacted by increased loan payoffs, resulting in part from increased oil and gas revenues to some borrowers, softening loan demand, and increased local competition. The table below summarizes composition of the bank's loan portfolio on June 30, 2018.

Loan Portfolio Composition as of June 30, 2018		
Loan Type	Volume (\$000)	% of Total Loans
Commercial Loans	29,428	47
Agricultural Loans	18,012	29
Residential Loans	8,374	13
Consumer Loans	4,004	6
Municipal Loans – Public Finance	2,476	4
Total Loans:	\$62,293	100

Source: June 30, 2018, Call Report

The bank also offers a full range of deposit products and services, and alternative delivery systems such as online, mobile, and telephone banking. Online banking, accessible through the bank's website (www.fnbmertzson.com), allows customers to pay bills, make loan payments, transfer funds and access secure messaging capabilities. The mobile banking application provides customers with the ability to view their accounts, initiate transfers, and make mobile deposits. Telephone banking services are available 24 hours a day and include balance inquiries, funds transfer capabilities and hours of operation for each location.

There are no legal, financial, or other factors that impact FNB-Mertzson's ability to meet the credit needs of its AA. FNB-Mertzson's CRA performance was rated "Satisfactory" under the interagency Intermediate Small Bank (ISB) examination procedures in the previous CRA examination, dated January 11, 2016. Based on its financial condition, the local economy, product offerings, and competition, FNB-Mertzson has the ability to meet the various credit needs in its community.

Scope of the Evaluation

Evaluation Period/Products Evaluated

We evaluated FNB-Mertzson's CRA performance this evaluation period using ISB performance standards, which include a lending test and community development test. The evaluation period for these tests was January 1, 2016 through December 31, 2017. The scope included a review of the bank's primary loan products and we sampled 50 business loans, 40 agriculture loans and all HMDA reportable residential loans.

To assess lending performance, we reviewed 2016 loan origination data in comparison to the bank's performance context, 2010 census demographic data and 2016 Aggregate Lending data. Lending performance in 2017 was evaluated in relationship to the performance context and the 2015 American Community Survey (ACS) census data, which was published in 2017. The only published Aggregate Lending data in 2017 was the Aggregate HMDA data, which we used to assess residential lending.

Data Integrity

We verified the accuracy of residential loan data reported pursuant to HMDA requirements and found the information to be accurate. FNB-Mertzson is not required to report CT and revenue information on business and agricultural loans, therefore we verified this information by sampling the bank's loans and reporting systems. We found that sampled bank reports and loan system data were accurate.

Selection of Areas for Full-Scope Review

This evaluation includes a full-scope review for the San Angelo MSA. Refer to the tables in Appendix A, B, and C for more information.

Ratings

FNB-Mertzson's rating is based on performance within the AA. In our analysis, we placed more weight on borrower loan distributions as the geographic distribution of loans in rural areas of Tom Green and Irion County was not meaningful.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) 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. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

FNB-Mertzton achieved **Satisfactory** performance under the Lending Test and **Outstanding** performance under the CD Test. There were no discriminatory lending practices identified during the evaluation period.

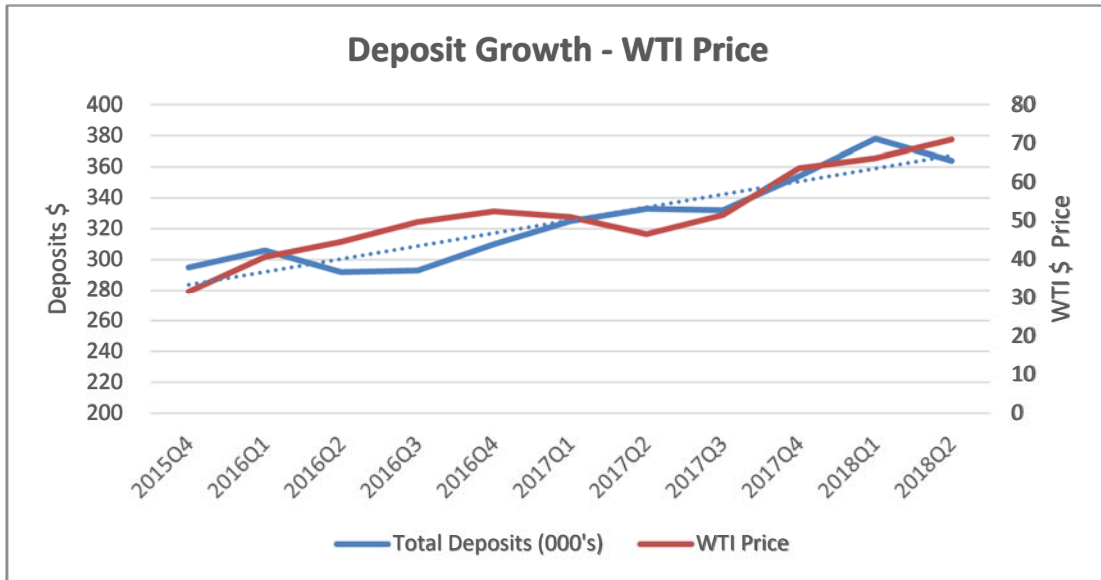
LENDING TEST

The bank's performance under the Lending Test is Satisfactory. Lending activity is reasonable given the bank's size, financial condition and AA credit needs. FNB-Mertzton has originated a significant majority of its loans within the AA. The loan-to-deposit ratio is reasonable when considering the nature of the bank's operating environment, external factors affecting the bank's depositors, and competitive factors. The bank's distribution of loans by borrower income and geography is reasonable.

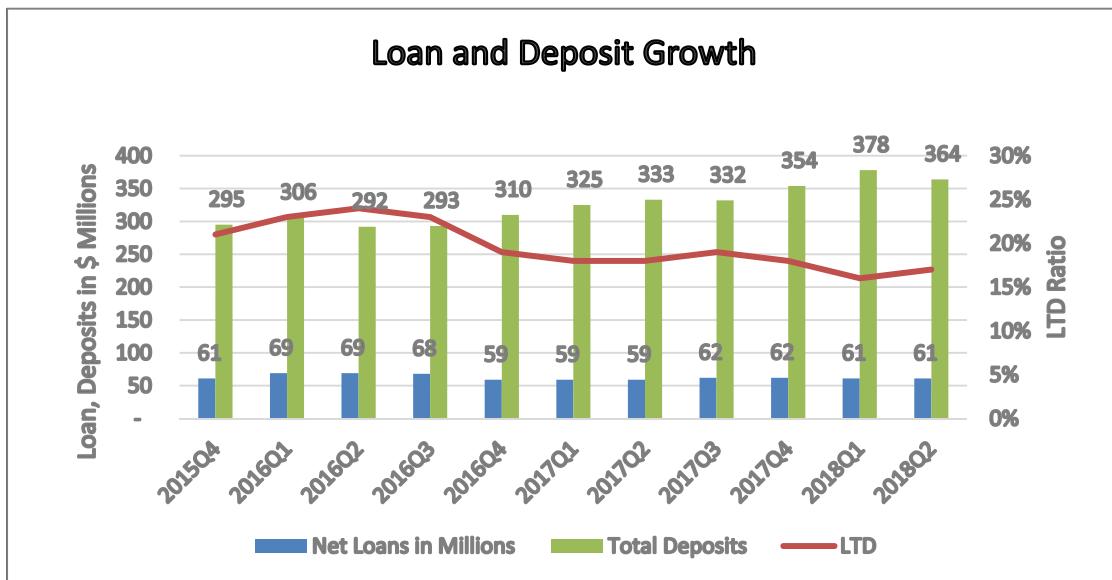
Loan-to-Deposit Ratio

The bank's quarterly average LTD ratio is reasonable and reflects satisfactory performance given the bank's capacity to lend, market competition, local demographics, economic factors, and lending opportunities within the AA. FNB-Mertzton's quarterly average LTD ratio since the last CRA evaluation was 19 percent, a slight increase from 17 percent in the prior evaluation period.

The bank's LTD ratio has been affected by a number of performance context factors, including continued strong deposit growth and a high volume of loan pay-offs. Deposit growth associated with the oil and gas industry remains strong. Although oil and gas related activities have declined from peak periods in 2014, many of the bank's customers and shareholders still receive significant royalty and lease income, which increases the bank deposits and limits loan demand. Shareholder and insider related deposits are significant, representing about 53 percent of the bank's total deposits. The bank's deposit base declined in 2015 and began to stabilize in mid-2016, but deposit growth increased again in 2017 and reached a high point of \$377 million in March 2018. This volume of deposits is just slightly below peak deposit levels in August 2014. As reflected in the chart below, the deposit growth at FNB-Mertzton correlates closely with the price of oil. The bank's deposit base has grown about 24 percent over the past 2.5 years.



FNB-Mertzton originated about \$60 million in loans during 2016 - 2017; but a significant portion of these loans (35 percent) paid off during this same period. As a result the bank's total loan portfolio has remained relatively stable. The increased deposit growth and stable loan portfolio have not significantly affected the bank's LTD ratio as reflected in the chart below.



The bank's average LTD ratio does not include unfunded loan commitments, which totaled about \$9 million in June 2018. The bank also supports Irion County as a public funds depository. Public funds averaged \$23 million during the evaluation period. FNB-Mertzton must pledge investments against these funds, making the investments unavailable as a source of funds for lending. The average LTD ratio adjusted for unfunded commitments and public funds was 24 percent during the evaluation period. This ratio is more closely aligned with similarly situated banks, but still slightly below average.

FNB-Mertzon's quarterly average LTD ratio is below most other banks of similar size in San Angelo. Most of the banks operating in San Angelo have other locations outside of the MSA, with the exception of FNB-Mertzon and one institution, operating only in Tom Green County. Some of the local financial institutions in San Angelo specialize in different loan products, such as longer-term fixed rate mortgages. FNB-Mertzon's LTD ratio more closely aligns with similarly situated banks with offices in areas affected by the oil and gas industry. The chart below compares FNB-Mertzon's average LTD ratio on June 30, 2018 with other similarly situated institutions. The LTD ratio in these institutions averaged 32 percent during the evaluation period. FNB-Mertzon's LTD ratio very closely aligns with two similarly situated banks with main office locations in nearby Sterling and Howard counties.

BANK NAME	CITY	STATE	COUNTY	TOTAL ASSET S (000s)	6/30/2018 AVG. LTD Ratio %
Stockmens National Bank in Cotulla	Cotulla	TX	La Salle County	105,497	17
The First National Bank of Mertzon	Mertzon	TX	Irion County	392,383	19
The First National Bank of Sterling City	Sterling City	TX	Sterling County	170,595	20
The State National Bank of Big Spring	Big Spring	TX	Howard County	354,437	20
The Karnes County National Bank of Karnes City	Karnes City	TX	Karnes County	386,287	26
The First National Bank of Stanton	Stanton	TX	Martin County	220,006	29
The Falls City National Bank	Falls City	TX	Karnes County	381,363	37
The Lamesa National Bank	Lamesa	TX	Dawson County	321,805	32
First State Bank	Paint Rock	TX	Concho County	103,022	52
Texas State Bank	San Angelo	TX	Tom Green County	276,142	53

Lending in Assessment Area

Lending in the AA is excellent with a substantial majority of loans originated inside the AA. As reflected in the following table, FNB-Mertzon originated 68 percent of loans within the AA by number and 56 percent by dollar volume. Approximately 90 percentage of the out of area agriculture related loans (by number) are to customers in adjoining rural counties.

Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				Total \$(000s)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Residential	39	74	14	26	53	3,462	65	1,839	35	5,301
Small Business	123	62	77	38	200	16,679	60	10,914	40	27,593
Agriculture/Farm	42	41	60	56	102	10,017	45	12,305	55	22,322
Consumer	308	78	86	22	394	3,425	72	1,313	28	4,738
Total	512	68	237	32	749	33,583	56	26,371	44	59,954

Source: 1/1/2016 - 12/31/2017 Bank Data, HMDA for 2016 and 2017. Due to rounding, totals may not equal 100.0

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

Overall, the bank's distribution of loans to borrowers of different income levels and to businesses of different sizes is reasonable and meets the standards for satisfactory performance. The distribution of loans to small farms is excellent. Residential loan distributions are reasonable when considering competitive factors and the bank's product focus. Business loans represented the largest percentage of the loan portfolio during the evaluation period. As such, we placed more weight on business loan distributions in our assessment of the bank's performance.

Refer to Appendix C for the more detail on facts and data used to evaluate the bank's lending activity. Table P includes the Assessment Area Distribution of Residential Loans by Income Category of the Borrower. Table R includes the Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues, and Table T includes the Assessment Area Distribution of Loans to Farms by Gross Annual Revenues.

Small Business Lending

During the 2016-2017 evaluation period, FNB-Mertzon originated approximately \$17 million in small business loans in the AA. Our sample of 50 business loans reflects a reasonable distribution of loans among small businesses with revenues equal to or less than \$1 million. Approximately 72 percent of the bank's loan originations were to businesses with revenues less than \$1 million. This level of performance is slightly below AA demographics as reported by Dun and Bradstreet (D&B), but significantly higher than Aggregate Lenders reporting small business lending activity in 2016. Aggregate Lenders only reported 39 percent of loan originations to businesses with revenues equal to or less than \$1 million. The bank's loans to businesses with revenues greater than \$1 million approximated 26 percent; although further analysis of these loans revealed that most of these businesses are also categorized as "small" under guidelines established by the Small Business Administration.

Agriculture Related Lending

During the 2016-2017 evaluation period, FNB-Mertzon originated approximately \$10 million in agricultural (AG) related loans in the bank's AA. We sampled 40 AG related loans in the bank's AA during the evaluation period to assess performance. The penetration of loans to farmers or ranchers with revenues equal to or less than \$1 million was excellent. We compared the bank's performance to D&B data as well as Aggregate Lenders. As reflected in Table T, FNB-Mertzon originated 93 percent of its loans to farmers or ranchers with annual revenues less than or equal to \$1 million. This level of performance was in line with AA demographics and significantly higher than Aggregate Lenders.

Residential Lending

FNB-Mertzon originated \$3.5 million in residential related loans in the AA during the evaluation period. The overall distribution of residential loans among borrowers of different income levels is reasonable.

The volume of loans in 2016 was insufficient for a meaningful analysis, but of the 18 2016 residential loans, FNB-Mertzon originated two loans to low-income borrowers, and one loan to a moderate-income borrower. During 2017, the bank's penetration of residential loans to low-income borrowers was reasonable. Approximately 19 percent of the bank's 21 loans were to low-income borrowers. This distribution is slightly below AA demographics, but significantly higher than Aggregate Lenders in 2017. The bank's penetration of residential loans among moderate-income borrowers was excellent. FNB-Mertzon originated 19 percent of its loans to moderate-income borrowers, which slightly exceeded AA demographics as well as performance by Aggregate Lenders.

Geographic Distribution of Loans

FNB-Mertzon has a reasonable dispersion of loan originations throughout its AA including low- and moderate-income areas. Business loans represented the largest percentage of loan originations during the evaluation period. As such, the geographic distribution of business loans weighed more heavily in our conclusion. The geographic distribution of AG related loans carried less weight as a majority of these loan originations are in the rural areas of Tom Green County or Irion County which have very large CTs. Analysis of loan distributions in rural areas of the bank's AA, did not provide a meaningful analysis. For example, Irion County has only one CT and it is designated upper-income. There is only one low-income CT in the bank's AA, and it is located within the city of San Angelo, Texas.

Refer to the tables in Appendix C for more detail on the facts and data used to evaluate the bank's lending activity. Table O includes the AA Distribution of Residential Loans by Income Category of the Geography, Table Q includes the AA Distribution of Loans to Small Businesses by Income Category of the Geography, and Table S includes an AA Distribution of Loans to Farms by Income Category of the Geography.

Business Lending

The geographic distribution of business loans in the AA is reasonable. During 2016, business loan dispersions in the low-income CT were slightly below AA demographics but performance exceeded Aggregate Lenders. The bank's 2017 geographic loan dispersions in the low-income CT were the same as in 2016. FNB-Mertzon's loan dispersions in moderate-income CTs exceeded comparable AA demographics in 2016 and in 2017. The bank's performance in 2016 was the same as other institutions reporting Aggregate Lender data.

Agriculture Related Lending

The geographic distribution of sampled AG related loans in 2016 and in 2017 was poor in comparison to AA demographics, and Aggregate Lender data, but as mentioned above, we placed less weight on these loan distributions due to the size of rural CTs in the bank's AA. All of the rural CTs are in the bank's AA are either middle- or upper-income CTs. The bank did not have any AG related loans in the one low-income CT; however, this CT is located in the downtown area of San Angelo. Aggregate Lenders only reported 4 percent of their loans in this CT. The bank did not have any loans in the moderate-income CTs. The majority of the bank's loans were in middle- or upper-income CTs, which is consistent with AA demographics. The majority of sampled AG loans were in Irion County, an upper-income CT.

Residential Lending

The geographic distribution of residential loans in the bank's AA is reasonable when considering AA demographics, competition, and the bank's residential loan products. The number of residential loans in 2016 was too small for a meaningful analysis, but four of the bank's 18 loans were in moderate-income CTs. The bank did not have any residential loans in the one low-income CT in 2016 or 2017; however, this CT only has 1 percent of AA housing units. The low-income CT is located in the downtown area of San Angelo, where the majority of the bank's competitors that offer longer term fixed rated products have offices. Aggregate Lenders reported less than 1 percent of their loans in this one CT. During 2017, FNB-Mertzson reported 24 percent of loan originations in moderate-income CTs, which is approximately the same as AA demographics. The bank's 2017 performance in moderate-income CTs exceeded 2017 Aggregate Lenders.

Responses to Complaints

The bank has not received any complaints regarding its CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

FNB-Mertzson's CD performance through CD lending, investments, and services is **Outstanding** and demonstrates excellent responsiveness to AA needs.

Number and Amount of Community Development Loans

The bank had seven CD loans totaling \$415 thousand in the AA. These loans helped to meet a variety of CD needs. One loan for \$100 thousand provided interim construction funding for affordable housing to a local Community Development Corporation. Another loan totaling \$102 thousand supported economic development in the AA and was funded as part of the City of San Angelo's Development Corporation (COSADC) program for creating and retaining jobs. As part of this program, the COSADC provided an interest rate buy down on the bank's loan, which lowered funding cost for the business. The five other CD loans provided essential needs and medical services for low- and moderate-income individuals in the bank's AA. Two of these loans provided interim construction financing for a medical clinic that serves low- and moderate-income individuals and families in the AA and surrounding counties. The bank's CD loans have had a positive impact on AA needs.

Number and Amount of Qualified Investments

The level of qualified investments reflects adequate responsiveness to CD needs of the AA. FNB-Mertzson's investments consist of donations that totaled approximately \$43 thousand over the two year evaluation period. The bank did not make any equity or debt investments in the AA; however, CD investment opportunities are limited in the AA due to strong competition from larger competitors in Tom Green County. The bank has focused on meeting the financial and CD related needs of Irion County through lending opportunities rather than bond investments.

Five of the bank's donations totaling \$12 thousand supported affordable housing initiatives within the AA and benefited organizations such as Habitat for Humanity and Bluebonnet Homes. In Tom Green County, the bank has partnered with Habitat for Humanity of San Angelo, Inc. to participate in the Bank Build Adopt-A-Home Project for each of the past six years. The bank participates with four other local banks to provide funding to construct homes for a family selected by Habitat for Humanity.

The bank also made at least two donations totaling \$1 thousand in support of business expansion and economic development in San Angelo. Other bank donations are related to CD services and support the bank's priorities in meeting identified AA needs pertaining to hunger and family violence. In 2017, FNB-Mertzson also focused CD investment priorities on addressing the digital divide among low- and moderate-income individuals. In 2017, the bank donated at least \$3 thousand to purchase 10 PCs for graduating low- or moderate-income students in a San Angelo area school. FNB-Mertzson also provided free internet access to these students for one year. The students were all taking dual credit classes for college. By purchasing these PCs and providing Internet access, the bank helped bridge the digital divide for these students as they continue their education.

The PCs also allow students to access financial services through online resources. FNB-Mertzon expanded this initiative in 2018 to Irion County schools.

Broader Statewide Area

During the evaluation period, FNB-Mertzon invested \$12 million in general obligation municipal bonds that qualify as CD investments because they serve essential community needs in school districts where more than 50 percent of the students qualify for free or reduced lunch assistance. During the evaluation period the bank also invested \$483 thousand in minority owned depository institutions. The bank has \$16 million in qualified prior period municipal investments.

Extent to Which the Bank Provides Community Development Services

The level of CD services reflects excellent responsiveness to CD needs of the AA. During the evaluation period, bank officers and staff were involved with at least 15 different organizations providing CD services in the bank's AA. FNB-Mertzon assesses and meets CD needs through volunteer activities of its directors, officers, and employees, several on a continuing basis. Bank officers serve in leadership positions as directors and committee members with organizations that provide community service, affordable housing, and economic development. Through these leadership positions, bank officers have provided assistance with loan underwriting, fund raising, financial education, and meeting the essential needs of low- and moderate-income individuals.

FNB-Mertzon's participation in organizations such as the Irion County Child Welfare Board, the Irion County Food Pantry, the Institute of Cognitive Development, Concho Valley Community Action Agency, the Texas Hunger Initiative, and fundraisers for the Trinity Daily Bread Soup Kitchen have helped to meet identified essential AA needs related to poverty and domestic violence among low- and moderate-income families. Bank officers have provided financial expertise and leadership to organizations such as the United Way of Concho Valley, the West Texas Boys Ranch, and the Concho Valley Council of Governments Regional Review Committee. FNB-Mertzon has supported AA needs for affordable housing through involvement in Boards with organizations such as Habitat for Humanity.

FNB-Mertzon provides free checking services to various charitable organizations involved with meeting the essential needs of low- and moderate-income individuals. The bank's services are reasonably accessible to all individuals through online, mobile, and telephone banking delivery channels. FNB-Mertzon's offices or services are reasonably accessible to all individuals and businesses in the AA. One of the bank's San Angelo branches and an ATM are located in the only low-income CT in the AA.

Responsiveness to Community Development Needs

FNB-Mertzon demonstrates excellent responsiveness to meeting CD needs in the AA as evidenced by CD lending, investment, and CD services. The bank's CD activities have focused on specific AA needs as determined through community outreach, and participation on the Boards of various CD organizations. The bank's efforts to address

limited access to technology among low- and moderate-income students is particularly responsive to an identified AA need. The bank's partnership with local government organizations in CD lending activities has also demonstrated responsiveness to AA economic development needs.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test: 01/01/2016 - 12/31/2017 Community Development Test: 01/01/2016 - 12/31/2017	
Financial Institution	Products Reviewed	
The First National Bank of Mertz, Mertz, Texas	Business Loans Agriculture Loans Residential Loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None	None	N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
San Angelo MSA	Full Scope	Tom Green and Irion Counties

Appendix B: Community Profiles for Full-Scope Areas

Table A – Demographic Information of the Assessment Area						
Assessment Area: San Angelo MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	26	3.8	30.8	42.3	19.2	3.8
Population by Geography	116,700	2.2	27.8	50.3	19.7	0.0
Housing Units by Geography	48,240	2.4	28.2	48.2	21.2	0.0
Owner-Occupied Units by Geography	26,972	1.4	24.8	48.5	25.3	0.0
Occupied Rental Units by Geography	16,511	3.5	28.2	53.4	14.8	0.0
Vacant Units by Geography	4,757	3.8	47.8	28.9	19.4	0.0
Businesses by Geography	7,172	11.7	21.9	42.9	23.1	0.4
Farms by Geography	431	5.8	9.0	35.0	50.1	0.0
Family Distribution by Income Level	27,907	21.4	18.1	20.7	39.7	0.0
Household Distribution by Income Level	43,483	23.3	16.9	17.0	42.8	0.0
Median Family Income MSA (2015 ACS Census) FFIEC		\$59,830	Median Housing Value			\$118,628
Updated 2017 Median Family Income MSA -		\$61,400	Median Gross Rent			\$785
			Families Below Poverty Level		10.7%	
			Households Below Poverty Level		14.3%	
<i>Source: 2015 ACS Census, 2017 D&B Data, 2017 FFIEC Income Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

San Angelo MSA AA Description

FNB-Mertzson has designated its AA as all of the San Angelo MSA. The San Angelo MSA consists of Irion and Tom Green Counties, with an approximate population of 116,700 people and 43,483 households, according to the 2015 ACS, a United States (US) Census report. Tom Green County represents the largest percentage of AA population and includes the city of San Angelo. Irion County, with a population of only 1,644, represents about 1 percent of the AA population and includes the city of Mertzson. This AA meets the requirements of the CRA regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The San Angelo MSA includes 26 census tracts, consisting of one low-income tract within the city of San Angelo, eight moderate income tracts, 11 middle income tracts, and five upper income tracts. The census data shows one CT without any income characteristics; the San Angelo airport is located in this CT. According to 2015 ACS Census data, only 2 percent of the AA population and 5 percent of AA households reside in the low-income CT. The percentage of AA population in moderate-income CTs is much higher, with 28 percent of AA population and 34 percent of AA households. The San Angelo MSA AA does not have any distressed or underserved communities.

According to updated 2017 U.S. Census estimates, the population of Mertzon is about 739. San Angelo is the county seat of Tom Green County, with a population of 100,119, according to 2017 U.S. Census estimates. While FNB-Mertzon is the only FDIC-insured financial institution in Irion County, the bank faces strong competition from other financial institutions in the San Angelo area, with a total of 15 banks and five credit unions.

Economic activity in Irion and Tom Green Counties is considered strong. The Bureau of Labor Statistics (BLS) reported a 3.2 percent seasonally adjusted unemployment rate in the San Angelo MSA in September 2018. Unemployment rates in the MSA compared favorably to state and national averages of 3.8 percent and 3.7 percent, respectively in September 2018. The Federal Financial Institutions Examination Council (FFIEC) updated median family income in 2017 was \$61,400, an increase from \$59,830 reported in the 2015 ACS Census data. U.S. Census data in 2017 indicates that the percentage of households living below poverty levels in Tom Green County is about 13 percent, slightly higher than national levels, but slightly below state levels. Poverty levels in Irion County are low at about 8 percent. A January 2018 MSA profile report from Moody's Analytics indicates that the recent increase in oil prices and increased defense spending have boosted the local economy, with projections to improve through 2018. Moody's considers the economy as being in a recovery stage. The report from Moody's further indicates that job growth in the MSA was near a two-year high, although less than half of the U.S. and Texas averages. Higher oil prices have supported expansion in the oil and gas industries as well as support services. The bank's customers have benefited from oil and gas royalty income as well as lease bonuses. The bank's deposit base peaked at \$396 million in August 2014 and is approaching that level with deposits totaling \$388 million in September 2018.

The economy of the AA is primarily driven by agriculture, oil and gas, military, and health care industries. Top employers include the Goodfellow Air Force Base (AFB), Shannon Health System, San Angelo ISD, Angelo State University, and the City of San Angelo. Angelo State University, with an enrollment of approximately 10,000, provides higher educational opportunities in the San Angelo MSA, along with the San Angelo campus of Howard College, Park University in Goodfellow AFB, and the Texas College of Cosmetology-San Angelo.

Western Irion and Tom Green Counties are in the Permian Basin oil field, and contain sections of the Wolf camp and Cline Shale oil and gas formations. Irion County and neighboring Reagan County have been the center of the oil and gas boom that began in 2013. The close proximity of the bank's AA to oil and gas activity has contributed in part to fluctuations in the MSA economy over the past few years. Oil and gas activity has spurred the AA economy by providing additional employment opportunities, and growth in family income. Bank customers and local businesses; however, were negatively impacted during 2015 and late 2017 when the price of crude oil declined. While oil and gas activity has bolstered the local economy, it has also increased average home values and rental prices in the AA. Census data from 2010 and 2015 indicates that the weighted average median home values increased by about \$21 thousand or 22 percent. Moody's report, indicates that home price appreciation in the San Angelo MSA is below state averages but is accelerating. Single-family permits in the MSA were the highest since 2014. More recent data from the Texas A&M Real Estate Center in September 2018

indicates that home sales have increased about 11 percent over the past year. Median sales prices have declined slightly, but the median price per square foot has increased from \$99 to \$105. Texas A&M reports indicate the supply of housing inventory for single family homes declined from 4.3 to 3.3 months. The increasing cost of housing is challenging for low- and moderate income families.

Community Contacts

As part of this evaluation, we assessed community credit needs in the bank's AA by reviewing CRA Public Evaluations of other banks operating in the same area, and meeting with city owned organizations involved with economic development and housing. We also considered community contacts performed by other regulators performing CRA evaluations in this AA. Contacts identified opportunities for continued participation in affordable housing initiatives as well as business development and retention programs. Through outreach in the community, bank management has also identified opportunities in the AA to address the needs of low- and moderate-income individuals and families related to poverty, health care, employment, and assistance for victims of domestic violence. The bank's community development initiatives have focused on these AA needs.

Appendix C: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each AA within the state rating areas. For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases; (2) “Aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all lenders in the assessment area; (3) the “% Total” represents the percentage of all bank HMDA loans during the relevant evaluation period; (4) the “Overall Market” represents the number of loans in the relevant AA by Aggregate lenders. Tables without data are not included in this PE. The following is a listing and brief description of the tables included in each set:

Table O. Assessment Area Distribution of Residential Loans by Income Category of the Geography - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.

Table P. Assessment Area Distribution of Residential Loans by Income Category of the Borrower - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents aggregate peer data for the years the data is available.

Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography - The percentage distribution by number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. Because small business data are not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank’s assessment area.

Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. The table also presents aggregate peer data for the years the data is available.

Table S. Assessment Area Distribution of Loans to Farms/Ranches by Income Category of the Geography - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.

Table T. Assessment Area Distribution of Loans to Farms/Ranches by Gross Annual Revenues - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. The table also presents aggregate peer data for the years the data is available.

Table O: Assessment Area Distribution of Residential Loans by Income Category of the Geography 2016 - 2017

Assessment Area:	Total Residential Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts		
	#	\$ (000)	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate
San Angelo MSA	18	2,175	100	3,534	1	0	0.6	26	22	16	45	50	48	29	28	36	0	0	0
San Angelo MSA	21	1,287	100	2,720	1	0	0.7	258	24	14	49	10	51	25	67	34	0	0	0

Source: 2010 U.S Census; 01/01/2016 - 12/30/2016 Bank HMDA Data, 2016 HMDA Aggregate Data; Due to rounding, totals may not equal 100

Table P: Assessment Area Distribution of Residential Loans by Income Category of the Borrower 2016 - 2017

Assessment Area:	Total Residential Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers		
	#	\$ (000)	% of Total	Overall Market	% of Families	% Bank Loans	Aggregate	% of Families	% Bank Loans	Aggregate	% of Families	% Bank Loans	Aggregate	% of Families	% Bank Loans	Aggregate	% of Families	% Bank Loans	Aggregate
San Angelo MSA - 2016	18	2,175	100.0	3,534	22	11	4	18	6	12	19	6	20	40	61	40	0	17	24
San Angelo MSA - 2017	21	1,287	100.0	2,720	21	19	4	18	19	12	21	14	20	40	48	39	0	0.0	24

Source: 2015 ACS Census; 01/01/2017 - 12/30/2017 Bank HMDA Data, 2017 HMDA Aggregate Data; Due to rounding, totals may not equal 100

Table Q: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography 2016 - 2017

Assessment Area:	Total Loans to Small Businesses				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts		
	#	\$	% of Total	Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	Aggregate
San Angelo MSA - 2016	25	3,763	23	1,615	12	12.0	8	15	16	16	44	40	45	29	32	31	0.4	0	0.5
San Angelo MSA - 2017	25	4,919	29	--	12	8.0	--	22	28	--	43	28	--	23	36	--	0.0		

Source: 2016 and 2017 D&B Data; 01/01/2016 - 12/31/2017 Bank Data; 2016 CRA Aggregate Data "--" data not available. Due to rounding, totals may not equal 100.0

Table R: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues 2016 - 2017

Assessment Area:	Total Loans to Small Businesses				Businesses with Revenues <= 1MM			Businesses with Revenues > 1MM		Businesses with Revenues Not Available	
	#	\$	% of Total \$	# Overall Market	% Businesses	% Bank Loans	Aggregate	% Businesses	% Bank Loans	% Businesses	% Bank Loans
San Angelo MSA - 2016	25	3,763	23	1,615	81	76	39	5	24	14	0
San Angelo MSA - 2017	25	4,919	29	--	81	68	--	5	28	14	4
Total	50	8,682	52	1,615	81	72	39	5	26	14	2

Source: 2016, 2017 D&B Data; 01/01/2016 - 12/31/2017 Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0. The loan distribution analysis was combined in this analysis because AA demographic information was the same in 2016 and in 2017.

Table S - Assessment Area Distribution of Loans to Farms by Income Category of the Geography																			2016 - 2017		
Assessment Area:	Total Loans to Farms				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts				
	#	\$	% of Total	Overall Market	% Farms	% Bank Loans	Aggregate	% Farms	% Bank Loans	Aggregate	% Farms	% Bank Loans	Aggregate	% Farms	% Bank Loans	Aggregate	% Farms	% Bank Loans	Aggregate		
San Angelo MSA 2016	20	347	3	82	7	0	3.7	7	0	0	35	30	23	52	70	73	0.0	0.0	0		
San Angelo MSA - 2017	20	6,235		--	6	0	--	9	0	--	35	25	--	50	75	--	0.0	0.0	0		

Source: 2016, 2017 D&B Data; 01/01/2016 - 12/31/2017 Bank Data; 2016 CRA Aggregate Data, "--" data not available. Due to rounding, totals may not equal 100.0

Table T: Assessment Area Distribution of Loans to Farms by Gross Annual Revenues												2016 - 2017	
Assessment Area:	Total Loans to Farms				Farms with Revenues <= 1MM			Farms with Revenues > 1MM		Farms with Revenues Not Available			
	#	\$	% of Total	Overall Market	% Farms	% Bank Loans	Aggregate	% Farms	% Bank Loans	% Farms	% Bank Loans		
San Angelo MSA 2016	20	347	3	82	97	100	49	2	0	1	0		
San Angelo MSA 2017	20	6,235	62	--	97	85	--	2	15	1	0		
Total	40	6,582	66	--	97	93	49	2	7	1	0		

Source: 2016 and 2017 D&B Data; 01/01/2016 - 12/31/2017 Bank Data; "--" data not available. Due to rounding, totals may not equal 100.0