



## **PUBLIC DISCLOSURE**

March 12, 2018

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank  
Charter Number 14886

301 East Houston Street  
Jasper, TX 75951

Office of the Comptroller of the Currency

1301 McKinney Street  
Suite 1410  
Houston, TX 77010-3031

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory**

The First National Bank of Jasper (FNB) has an overall Satisfactory record of meeting its community's credit needs when considering its performance context. This is based on the following:

- FNB's quarterly average loan-to-deposit (LTD) ratio adjusted for public fund deposits is reasonable at 49.78 percent when compared to the average LTDs of similarly sized peer banks at 55.45 percent.
- A majority of FNB's loans were made inside its Assessment Area (AA), with 78.76 percent by number and 73.76 percent by dollar volume of loans.
- Borrower distribution of loans reflects reasonable penetration among individuals of different income levels and to businesses of different sizes given the performance context.
- Geographic distribution of loans reflects an overall reasonable dispersion among households of different income levels and to businesses of different sizes given the performance context.
- There were no Community Reinvestment Act (CRA) related complaints during the evaluation period.

## **Description of Institution**

FNB is a full service community bank headquartered in Jasper, Texas with total assets of \$251 million, as of December 31, 2017. The bank was chartered on February 6, 1960 and is wholly owned by East Texas Bancshares, Inc., Livingston, Texas. Affiliates include the First State Bank of Livingston in Livingston, Texas. Jasper is primarily a rural community with a large timber industry.

The bank has three branches, which are all located in middle-income CTs. The main banking center is located at 301 E. Houston St., Jasper, Texas. The second branch is located at 270 US Highway 190 East, Woodville, Texas. During the evaluation period, the third and newest branch opened on August 21, 2017, at 35570 US Highway 96 S. Buna, Texas. There were no branch closings.

The bank's primary lending focus is on originating residential, commercial, and consumer loans as they make up the majority of the bank's loan portfolio. All locations provide full service banking and have Automated Teller Machines (ATMs), with the Buna branch having a deposit-taking ATM. Banking hours are reasonable, with lobby hours Monday through Friday. Saturday drive-in hours are available at all locations. The bank provides 24-hour online banking, mobile banking, and Interactive Voice Response telephone services. Remote deposit capture is also provided to its customers. FNB offers a standard array of deposit and loan products and services to help meet the credit needs of its community. There are no legal or financial impediments to the bank's ability to meet the credit and community development needs of its AA.

The bank was rated Satisfactory at its last CRA examination dated April 06, 2015.

*Please refer to the bank's Public File for additional information.*

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

We conducted an evaluation of FNB's lending performance to determine the bank's compliance with CRA. FNB was evaluated under the Small Bank CRA full-scope procedures, which includes a Lending Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AA through lending activities. The evaluation period for the Lending Test was from January 1, 2015 through December 31, 2017.

After reviewing the bank's loan portfolio composition, we found that FNB's primary loan products by dollar amount are business loans and residential real estate loans, which represent 47 percent and 32 percent of the loan portfolio, respectively. By number of loans, consumer loans were also found to be FNB's primary product at 65 percent of total number of loans. By category of business loans, commercial real estate loans totaled 36 percent and commercial and industrial loans totaled 11 percent of the loan portfolio.

As a Small Bank located outside a Metropolitan Statistical Area (MSA), the bank is not required to collect or report HMDA loan data. The bank is also not required to collect or report loan data for its business loans. Management elected not to collect this information during this evaluation period; therefore, we reviewed a sample of loans for our evaluation.

During the evaluation period, the Census Bureau made some changes to CTs within FNB's AA in 2017. Because of these changes, we evaluated the bank's lending performance based on two segments: Loans originated/refinanced in 2015 and 2016 before the changes, and loans originated/refinanced in 2017 after the changes to the CTs. For the 2015-2016 sample, our randomly selected sample included a total of 44 residential real estate loans, 47 business loans, and 46 consumer loans. For 2017, our randomly selected sample included a total of 30 residential real estate loans, 29 business loans, and 30 consumer loans. We based our analyses under the Lending Test on a review of the combined sample of 74 residential real estate loans, 76 business loans, and 76 consumer loans originated or renewed from January 1, 2015 through December 31, 2017.

### **Community Contact**

Representatives from the Federal Deposit Insurance Corporation (FDIC) contacted an organization in the bank's AA. The organization, which helps support local economic development, indicated the need for personal consumer loans, as well as home improvement and purchase/refinance home loans. FNB helps meet these needs by providing residential and consumer loans. Specifically, FNB is one of the few banks that provide loans to purchase or refinance mobile homes.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

Overall, performance under the Lending Test is Satisfactory given the performance context of FNB. Loan penetration to low- or moderate-income (LMI) borrowers and small businesses is reasonable. The geographic dispersion of loans in low- or moderate-income CTs is also reasonable. Overall ratings are determined considering the results from all the areas of the Lending Test and taking into consideration FNB's performance context factors.

## Loan-to-Deposit Ratio

Jasper's LTD ratio is reasonable given the performance context. Our analysis included three similarly situated banks in Jasper's AA ranging in total asset size from \$152 million to \$328 million. Jasper's quarterly average LTD ratio since the last CRA evaluation was 28.99 percent, ranging from a low of 26.80 percent to a high of 31.02 percent. The comparator quarterly average LTD ratio over the same period was 54.74 percent. The quarterly average LTD ratios ranged from a low of 34.82 percent to a high of 82.68 percent.

The primary reason for FNB's lower LTD ratio is the level of public fund deposits. As of year-end 2017, public deposits accounted for 40.27 percent of Jasper's total deposit base. These funds are typically not utilized for given the short-term nature of these deposits. Excluding these deposits provides a clearer view of the amount of funds that are available for lending purposes. When excluding these funds, FNB's quarterly LTD ratio increased to 49.78 percent. This is in line with the adjusted quarterly average ratio for comparators, which was 55.45 percent. Another factor impacting the bank's LTD ratio is increased banking competition, including credit unions, in conjunction with little economic growth in the AA. The bank's strategy is to potentially increase its deposits and lending opportunities with the addition of the Buna branch that recently opened in August 2017.

## Lending in Assessment Area

A majority of the bank's lending is inside its AA by number and dollar amount of loans. During the evaluation period, 78.76 percent by number and 73.76 percent by dollar amount of loans were originated or refinanced within the bank's AAs. Our analysis is based on a randomly selected sample of 226 loans that were made by the bank in 2015, 2016, and 2017. The following table details the bank's lending performance in its AA by product type:

<b>Table 1 - Lending in Jasper AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	59	79.73	15	20.27	74	7,554	83.14	1,532	16.86	9,086
Commercial	51	67.11	25	32.89	76	3,916	59.31	2,687	40.69	6,603
Consumer	68	89.47	8	10.53	76	500	92.76	39	7.24	539
Totals	178	<b>78.76</b>	48	21.24	226	11,970	<b>73.76</b>	4,258	26.24	16,228

Source: Loan samples

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

Overall, the distribution of loans reflects reasonable penetration among families and households of different income levels and to businesses of different sizes given FNB’s performance context.

**Residential Real Estate Loans**

Overall, borrower distribution of residential real estate loans reflects reasonable performance, when considering FNB’s performance context.

In 2015 and 2016, FNB’s distribution of residential real estate loans to both low- and moderate-income borrowers in the Jasper AA reflects very poor penetration when compared to the characteristics of the AA families. In 2017, FNB’s distribution of residential real estate loans to low-income borrowers also reflects very poor penetration, while loans to moderate-income borrowers improved to a reasonable penetration.

The reason for the low level of lending to LMI individuals is that low- or moderate-income individuals do not typically qualify for the traditional lending mortgage products offered by FNB, which require higher down payments and shorter maturities. LMI individuals typically utilize special lending programs that allow them to qualify for mortgage loans with lower down payments and other more flexible requirements. These loans are typically available through national mortgage lenders; therefore, making it difficult to lend to LMI individuals. Based on these factors and the limitations reflected in the Jasper AA, the distribution of residential real estate loans reflects an overall reasonable penetration. The following table shows the distribution of residential real estate loans among families of different income levels.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Jasper AA 2015-2016</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	23.20	<b>0.00</b>	20.09	<b>2.78</b>	18.92	19.44	37.79	77.78

Source: Loan sample; U.S. Census data.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Jasper AA 2017</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	21.05	<b>4.35</b>	17.70	<b>13.04</b>	17.77	21.74	43.48	60.87

Source: Loan sample; U.S. Census data.

**Business Loans**

Overall, borrower distribution of loans to small businesses with gross revenues of less than \$1 million reflects an excellent penetration.

In 2015 and 2016, FNB’s distribution of loans to small businesses in the Jasper AA reflects an excellent penetration at 88 percent when compared to the characteristics of the AA. In 2017, FNB’s distribution of business loans to small businesses also reflects an excellent penetration at 88.46 percent and it exceeds the business comparator. The following tables show the distribution of commercial loans among small and large businesses in the AA.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Jasper AA 2015-2016</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	81.56	3.82	14.62	100%
% of Bank Loans in AA by #	<b>88.00</b>	12.00	0.00	100%
% of Bank Loans in AA by \$	90.03	9.97	0.00	100%

Source: Loan sample; Dun & Bradstreet data.

Footnote: 8.00 percent of sampled loans did not require income verification.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Jasper AA 2017</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	80.47	4.22	15.31	100%
% of Bank Loans in AA by #	<b>88.46</b>	11.54	0.00	100%
% of Bank Loans in AA by \$	31.59	68.41	0.00	100%

Source: Loan sample; Dun & Bradstreet data.

**Consumer Loans**

Overall, borrower distribution for consumer loans reflects reasonable penetration.

In 2015 and 2016, FNB’s distribution of consumer loans to both low- and moderate-income borrowers in the Jasper AA is below but near to the characteristics of the AA households. In 2017, FNB’s distribution of consumer loans to low-income borrowers improved and exceeded the comparator indicating excellent penetration.

Loans to moderate-income borrowers reflected a reasonable penetration as it met the demographic comparator.

As mentioned earlier, banking competition in the AA is intense, especially when taking into consideration the more flexible loan rates that the three credit unions in Jasper are able to offer to their consumers. FNB continues to service the community by offering small dollar amount loans, even when the profitability from these smaller loans are typically low. In 2015, 2016, and 2017, a total of 568, 836 and 869 consumer loans were originated, respectively. Of these consumer loan originations, approximately 70 percent of them were for less than \$5,000.

Based on these factors and the limitations reflected in the Jasper AA, the overall distribution of consumer loans reflects an overall reasonable penetration. The following tables shows the distribution of consumer loan products among borrowers of different income levels.

Table 2B - Borrower Distribution of Consumer Loans in Jasper AA 2015-2016								
	Low		Moderate		Middle		Upper	
Borrower Income Level	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	24.62	<b>17.50</b>	17.33	<b>15.00</b>	19.59	30.00	38.46	37.50

Source: Loan sample or data; U.S. Census data.

Table 2B - Borrower Distribution of Consumer Loans in Jasper AA 2017								
	Low		Moderate		Middle		Upper	
Borrower Income Level	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	26.02	<b>29.63</b>	15.79	<b>14.81</b>	15.86	33.33	42.33	14.81

Source: Loan sample; U.S. Census data. Income verification not required for 7.42 percent of sampled loans.

### Geographic Distribution of Loans

Overall, the geographic distribution of loans among households and small businesses reflects reasonable dispersion in LMI CTs, given FNB’s performance context.

During the years 2015 through 2017, the Jasper AA did not have any low-income CTs. Because of this, we focused our analysis of all three loan products on the bank’s distribution of loans in its moderate-income CTs as well as in its distressed and underserved middle-income CTs. All of the middle-income CTs in the Jasper AA are designated as distressed and underserved. Lending in these CTs is equally considered as if lending in LMI CTs for CRA purposes.

### Residential Real Estate Loans

Overall, the geographic distribution of residential real estate loans reflects a reasonable dispersion.



In 2015 and 2016, FNB’s distribution of residential real estate loans in moderate-income CTs in the Jasper AA reflects poor dispersion when compared to the characteristics of the AA. However, lending in middle-income CTs at 97.22 percent reflects excellent dispersion as it exceeds the demographic comparator.

In 2017, geographic distribution in moderate-income CTs reflects poor dispersion with zero loans originated in these CTs. This is a result of very little growth in the area. When comparing the 2014 estimated population of the AA at 56,857 to the 2017 estimated population of the AA at 57,100, the population only grew by 0.43 percent. Based on this, there is little demand for new housing in the area as well as low demand for mortgage lending. This is in addition to the intense competition that is apparent in the AA and the limited LMI CTs in the AA to lend in as LMI CTs only represents 15 percent of the CTs in the Jasper AA. Lending to middle-income CTs is below but near to the comparator and reflects reasonable dispersion. Based on aforementioned factors and the limitations reflected in the Jasper AA, the overall geographic distribution of residential real estate loans reflects an overall reasonable dispersion. The following tables show the geographic distribution of residential real estate loans among CTs of different income levels.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Jasper AA 2015-2016								
CensusTract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	0.00	<b>0.00</b>	6.55	<b>2.78</b>	93.45	<b>97.22</b>	0.00	0.00

Source: Loan sample; U.S. Census data.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Jasper AA 2017								
CensusTract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	0.00	<b>0.00</b>	5.44	<b>0.00</b>	83.28	<b>65.22</b>	11.27	34.78

Source: Loan sample; U.S. Census data.

**Business Loans**

Overall, geographic distribution of loans to small businesses reflects reasonable dispersion.

In 2015 and 2016, geographic distribution of business loans in moderate-income CTs in the Jasper AA reflects poor dispersion when compared to the characteristics of the AA. However, geographic distribution in middle-income CTs reflects excellent dispersion as it significantly exceeds the characteristics of the AA.

In 2017, geographic distribution of business loans in moderate-income CTs improved to a reasonable penetration when considering the limited number of moderate-income CTs and the intense amount of banking competition in the AA. Given that these LMI CTs contain mostly well-established businesses with limited growth of new small businesses, it is a challenge to make new loans in these areas. As previously mentioned, there are limited opportunities for the bank to lend in LMI areas given that there are no low-income CTs in the AA and only two moderate-income CTs. Based on these factors and the limitations reflected in the Jasper AA, the overall geographic distribution of business loans reflects a reasonable dispersion. The following tables show the geographic distribution of commercial loans among CTs of different income levels.

Table 3A - Geographic Distribution of Loans to Businesses/Farms in Jasper AA 2015-2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	0.00	<b>0.00</b>	18.79	<b>8.00</b>	81.21	<b>92.00</b>	0.00	0.00

Source: Loan sample; Dun & Bradstreet data.

Table 3A - Geographic Distribution of Loans to Businesses/Farms in Jasper AA 2017								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	0.00	<b>0.00</b>	19.77	<b>15.38</b>	71.14	15.38	9.09	69.23

Source: Loan sample; Dun & Bradstreet data.

### Consumer Loans

Overall, geographic distribution of consumer loans reflects a reasonable dispersion.

In 2015 and 2016, geographic distribution of consumer loans in moderate-income CTs in the Jasper AA is below but near to the characteristics of the AA, reflecting a reasonable dispersion. Geographic distribution in middle-income CTs exceeds the characteristics of the AA, reflecting excellent dispersion.

In 2017, geographic distribution of consumer loans in moderate-income CTs significantly exceeded the characteristics of the AA, demonstrating excellent dispersion. Geographic distribution in middle-income CTs was below but near to the characteristics of the AA, which reflects reasonable dispersion. The following tables show the geographic distribution of consumer loans among CTs of different income levels.

Table 3B - Geographic Distribution of Consumer Loans in Jasper AA 2015-2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	9.73	<b>5.00</b>	90.27	<b>95.00</b>	0.00	0.00

Source: Loan sample or; U.S. Census data.

Table 3B - Geographic Distribution of Consumer Loans in Jasper AA 2017								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Household s	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	9.95	<b>14.81</b>	79.88	<b>59.26</b>	10.17	25.93

Source: Loan sample; U.S. Census data.

## Responses to Complaints

The bank did not receive any CRA-related complaints during the evaluation period.

## 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 assessment area 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.