



PUBLIC DISCLOSURE

June 6, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Layton
Charter Number 7685

12 South Main Street
Layton, UT 84041

Office of the Comptroller of the Currency

1225 17th Street
Suite 450
Denver, CO 80202-5534

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 major factors that support the institution's rating include:

- First National Bank of Layton's (FNBL) quarterly average loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the assessment area's (AA) credit needs.
- FNBL originated a majority of its loans within its AA.
- FNBL's distribution of commercial loans meets the standard for satisfactory performance in Davis County, its primary deposit-gathering market.
- The geographic distribution of small business loans in low- and moderate-income areas is excellent in both AAs.
- Although not required by the small bank lending tests, FNBL has been responsive to community development needs in both AAs. FNBL originated four qualified community development loans during our evaluation period, representing over 2 percent of tier 1 capital.

SCOPE OF EXAMINATION

We evaluated FNBL's Community Reinvestment Act (CRA) performance using lending test criteria for small bank CRA examinations. The lending test evaluates the bank's record of meeting credit needs in its assessment area through its lending activities. The CRA evaluation period covers June 11, 2013 through June 13, 2016.

The bank has identified two counties, Davis and Salt Lake, as its assessment area. Davis County is part of the Ogden MSA and Salt Lake County is part of the Salt Lake MSA. To test lending performance, we sampled 60 commercial real estate (CRE) loans originated between January 1, 2014 and December 31, 2015, with separate samples for each MSA. We focused our review on CRE loans because they represent FNBL's primary loan product based on the number and dollar volume of originations during our evaluation period.

We also reviewed community development loans, investments, and services, which FNBL provided since June 2013. In addition, we contacted a community representative in the AA to gain a better understanding of the local economy, area credit needs, and involvement of local financial institutions.

DESCRIPTION OF INSTITUTION

FNBL is headquartered in Layton, UT, approximately 30 miles north of Salt Lake City. The bank has six branches in the local area, and is owned by FNB Bancorp, a single-bank holding company. As of December 31, 2015, the bank had total assets of \$298 million and total loans of \$185 million, or 62 percent of total assets. According to the June 30, 2016 FDIC Deposit Market Share Report, the bank's deposit market share for Davis County, where the bank is headquartered, was 9.33 percent. FNBL is ranked third in deposit market share out of 14 institutions in Davis County. In Salt Lake County, which is adjacent to Davis County and where the bank operates branches, FNBL's deposit share was insignificant at 0.01 percent. FNBL is ranked 40th in deposit market share out of 44 institutions in Salt Lake County.

The bank offers traditional banking services. From 2010 through the beginning of 2014, the bank operated a mortgage operation and aggressively grew this line of business. Management decided to close the mortgage division in May 2014. In 2015, FNBL created a marketing and business development position in the bank and increased its marketing efforts to target small businesses in the AAs. These efforts included specific campaigns focusing on small business checking accounts and small business lending, sponsorship of the Utah Business Development Center Network in conjunction with Weber State University, and SBA Loan, Lunch and Learn seminars held in branches and free to small business owners.

The bank continues to specialize in commercial lending including CRE, construction and development (C&D), and commercial and industrial lending. Table 1 shows that commercial loans has been the primary loan product originated the past three years. Eighty-two percent of all loans originated in 2015 were commercial loans.

Table 1 – Loan Originations 2013 through 2015						
	2013		2014		2015	
	% Number	% Amount	% Number	% Amount	% Number	% Amount
Agriculture	1%	1%	0%	0%	0%	0%
Commercial	63%	94%	75%	96%	82%	98%
Dealer Loan	2%	0%	0%	0%	0%	0%
Individual/Consumer	33%	5%	24%	4%	17%	2%
Letter of Credit	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%

There are no legal or financial impediments to meeting the credit needs of the assessment area.

FNBL's CRA performance was rated "Satisfactory" during the last evaluation dated June 10, 2013. Refer to the bank's CRA Public File for more information.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank has identified two counties, Davis and Salt Lake, as its assessment areas (AAs). Davis County is part of the Ogden MSA and Salt Lake County is part of the Salt Lake MSA. These AAs meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income level communities.

Davis County AA

The Davis County AA contains 54 census tracts (CTs) which are predominately middle- and upper-income geographies. Specifically, the AA consists of only one low-income tract (2%), ten moderate-income geographies (18%), 24 middle-income geographies (44%) and 19 upper-income geographies (35%). The AA is reasonable based on the size and financial capacity of the bank.

The bank operates five bank branches in the Davis County AA. Competition is strong as there are 14 institutions within the AA. FNBL has the third highest deposit market share in the AA, totaling 9 percent per the FDIC Deposit Market Share Report dated June 30, 2016. Deposit market share percentages for the remaining institutions range from 29 percent to less than 1 percent.

According to 2010 U.S. Census data, the total population for Davis County is 306,479 individuals including 73,301 families and 90,607 households. Economic data shows that 6.84 percent of families in the AA live below the poverty level. There is one low-income tract in the Davis County AA where only 75 households are located. Twenty percent of total AA households (17,985 households) live in moderate-income CTs and 80 percent of households in this AA live in middle- and upper-income tracts. For 2015, the Department of Housing and Urban Development calculates the weighted average median family income to be \$71,500.

As of December 2015, the U.S. Bureau of Labor Statistics showed a 3.14 percent unemployment rate for the Davis County AA. This is slightly lower than the 3.6 percent unemployment rate for the state of Utah. June 2015 business demographic data shows 22,746 businesses are located in Davis County. Of these businesses, 528 (2%) are farm operations, and 22,218 (98%) are businesses. The AA consists of 82 percent small businesses, 4 percent large businesses, and 15 percent of the businesses do not report their revenues. Small businesses are those with gross annual revenues less than \$1 million. Business data also shows that 75 percent of businesses employ only one to four individuals. The AA's local economy is primarily comprised of service businesses (52%), finance/insurance/real estate (11%), and retail trade (10%). The top employers in the Davis County AA include Hill Air Force Base, Intermountain Health Care Inc., and several local universities. Lending opportunities in LMI geographies are limited. Business demographic data indicates there are 109 businesses located in low-income CTS and 3,489 businesses in moderate-income tracts.

During this examination, we contacted a community representative to inquire about the local economic conditions and credit needs within the Davis County AA. According to

the community contact, Davis County has a strong economy with low unemployment. The business community is stable and general credit needs are being met by local financial institutions.

Salt Lake County AA

The Salt Lake County AA is much larger geographically than Davis County. It contains 212 CTs, which are also predominately middle- and upper-income geographies. Specifically, the AA includes 11 low-income tracts (5%), 41 moderate-income tracts (19%), 98 middle-income tracts (46%), and 60 upper-income tracts (28%). The AA is reasonable based on the size and financial capacity of the bank.

FNBL's physical presence is much smaller in this AA with only two branches. Competition within the AA is strong for small business lending as there are 44 financial institutions within the AA. The bank has competition from national banks, large regional banks, state and federal credit unions, industrial banks, and federal savings associations operating within the AA. There are several banks that specialize in SBA lending in this AA. Per the FDIC Deposit Market Share Report dated June 30, 2016, FNBL ranks 40th with a negligible 0.01 percent of the deposit market share. Deposit market share percentages for the remaining institutions range from 23 percent to less than 1 percent.

According to 2010 U.S. Census data, the total population for the Salt Lake County MSA was 1,029,655 individuals, comprised of 236,504 families and 335,075 households. Out of AA total families, 10 percent live below the poverty level. Approximately 25 percent of AA households are located in low- and moderate-income (LMI) CTs. For 2015, the Department of Housing and Urban Development calculates the weighted average median family income to be \$71,000.

As of December 2015, the U.S. Bureau of Labor Statistics showed a 4.2 percent unemployment rate for Salt Lake County, which is higher than the state average of 3.6 percent. Per the June 2015 business demographic data, there were 90,356 businesses in the Salt Lake County AA. Two percent of businesses are farm operations and 98 percent (88,910) were non-farm businesses. Similar to the Davis County AA, businesses are mainly small with 71 percent of businesses employing only one to four individuals and 86 percent employ less than 50 individuals. Small businesses represent 77 percent of this AA. Approximately 17 percent of businesses in this AA do not report their annual revenues. The AA's local economy is primarily comprised of service businesses (50%), finance/insurance/real estate (12%), and retail trade (10%). Top employers include local, state, and federal government agencies, Delta Airlines, the University of Utah, Sinclair Oil Corporation, and The Church of Jesus Christ of Latter-Day Saints. Business demographic data indicates there are approximately 24 percent of non-farm businesses located in LMI tracts.

We also contacted a community representative to inquire about the local economic conditions and credit needs within the Salt Lake County AA. The contact reported that

the area’s economy is strong with low unemployment. Smaller businesses and start-up companies have the greatest need for credit.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit (LTD) Ratio

FNBL’s quarterly average LTD ratio is reasonable given the bank’s size, financial condition, and AA credit needs.

The bank’s quarterly average LTD since the last CRA exam is 68 percent compared to the quarterly average of similarly situated banks at 74 percent. FNBL’s LTD ratio reached a high of 74 percent and a low of 59 percent during the evaluation period. Similarly situated banks are those banks of comparable size with similar business lines operating in the AAs. The average quarterly LTD ratio for these banks ranged from 53 percent to 98 percent.

Lending in Assessment Areas

FNBL originates a majority of its commercial loans in its AA.

A sample of 20 commercial loans showed that 70 percent of loans, by number, were originated in the bank’s AA. By dollar volume, \$8.8 million or 77 percent, were originated in the bank’s AAs. Refer to Table 2 for additional information.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (000)	%	\$	%	
Commercial	14	70%	6	30%	20	8,800	77%	2,581	23%	11,381

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

Overall, the bank’s commercial lending to businesses of different sizes meets the standard for satisfactory performance. The bank faces significant competition in both AAs. While the bank’s performance in Davis County AA is satisfactory, the performance in Salt Lake City AA is considered poor. Given the bank’s larger presence in Davis County, we placed more weight on the bank’s performance in this AA.

Davis County AA

The bank’s distribution of loans in the Davis County AA reflects satisfactory performance lending to small businesses.

Table 3A shows that FNBL originated 50 percent of the commercial loan sample by number, and 69 percent by dollars, to small businesses. The bank’s performance is only slightly lower than area demographics, which show that 81 percent of businesses are small businesses.

Table 3A - Borrower Distribution of Loans to Businesses in Davis County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	81.6%	3.5%	14.9%	100.00%
% of Bank Loans in AA by #	50.0%	45.0%	5.0%	100.0%
% of Bank Loans in AA by \$	69.4%	27.6%	3.0%	100.0%

Salt Lake County AA

The bank’s distribution of loans in the Salt Lake County AA reflects poor penetration in lending to small businesses.

Table 3B shows that FNBL originated only 40 percent of the commercial loan sample, by number of loans, to small businesses. This compares unfavorably to area demographics, which show that 78 percent of businesses are small businesses. Table 3B shows only 29 percent of the loan sample, by dollars, were originated to small businesses.

Table 3B - Borrower Distribution of Loans to Businesses in Salt Lake County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	77.5%	5.1%	17.4%	100.0%
% of Bank Loans in AA by #	40.0%	60.0%	0.0%	100.0%
% of Bank Loans in AA by \$	29.0%	71.0%	0.0%	100.0%

Geographic Distribution of Loans

The bank’s overall dispersion of lending to borrowers located in different geographies is excellent.

Davis County AA

FNBL’s borrower dispersion of business loans in the Davis County AA is excellent.

Table 4A shows that 15 percent of the commercial loan sample were originated to businesses located in moderate-income CTs and this meets the demographic comparator, which shows 15.7 percent of businesses are in these tracts. While no loans were originated in low-income tracts, this is considered reasonable as there is only one low income CT in this AA with limited lending opportunities.

Table 4A - Geographic Distribution of Loans to Businesses in Davis County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0.5%	0.0%	15.7%	15.0%	43.6%	70.0%	40.2%	15.0%

Salt Lake County AA

FNBL’s borrower dispersion of business loans in the Salt Lake County AA is excellent.

Table 4B shows that 5 percent of the commercial loan sample were originated to businesses located in low-income CTs and slightly exceeds the demographic comparator, which shows 4.8 percent of businesses are in these tracts. Given significant competition, this performance is excellent as low-income geographies represent only 5 percent of the AA. Additionally, the bank originated 10 percent of its

commercial loans in moderate-income tracts, which is reasonably comparable to area demographics indicating that 19 percent of businesses are in these tracts.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	4.8%	5.0%	19.0%	10.0%	43.4%	75.0%	32.3%	10.0%

Qualified Investments and CD Services

FNBL originated four qualified community development loans during our evaluation period totaling \$810,000, representing 2.1 percent of tier 1 capital.

Davis County AA

The bank originated two qualifying CD loans in Davis County totaling \$694,000 during the evaluation period. These loans helped promote economic development by financing one small business and one affordable housing complex. Qualifying CD loans in the Davis County AA are equal to 0.3 percent of tier 1 capital.

Salt Lake County AA

The bank originated two qualifying CD loans in Salt Lake County totaling \$116,000 during the evaluation period. These loans helped promote economic development by financing two small businesses. Qualifying CD loans in the Salt Lake County AA are equal to 1.8 percent of tier 1 capital.

Responses to Complaints

FNBL did not receive any written complaints regarding its CRA performance during the evaluation period.

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.