



PUBLIC DISCLOSURE

November 13, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Quitaque
Charter Number 11706

320 East Main Street
Quitaque, TX 79255-0000

Office of the Comptroller of the Currency

Lubbock Field Office
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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

The Lending Test is rated: Satisfactory.

The First National Bank of Quitaque (FNB) has a satisfactory record of meeting community credit needs. This rating is based on the following findings:

- FNB has a reasonable quarterly average net loan-to-deposit (LTD) ratio of 57 percent during the evaluation period.
- FNB originated a majority of its loans by number (79 percent) and dollar volume (78 percent) to farms located within the assessment area (AA).
- FNB's loan portfolio reflects a reasonable penetration among farms of different sizes within the AA.
- The geographic distribution of farm loans reflects reasonable dispersion given the bank's performance context and business strategy.

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 home mortgage, 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.

Home Mortgage 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.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, 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: 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

FNB is an intrastate community bank headquartered in Quitaque, Texas, which is approximately 100 miles northeast of Lubbock, Texas. FNB is a wholly-owned subsidiary of Quitaque National Corporation. As of September 30, 2017, FNB's assets totaled \$52 million.

The bank provides traditional banking services including a variety of traditional loan and deposit accounts. Bank lobby and drive-through services are provided Monday through Friday at the bank's only branch in Quitaque, Texas. FNB has two ATMs, one at the bank and one in the nearby city of Turkey. FNB also offers basic online banking services at www.fnbquitaque.com.

Net loans totaled \$32.3 million and represented 78 percent of total deposits and 64 percent of total assets. The bank is primarily an agricultural lender. The following chart details a breakdown of FNB's loan portfolio as of August 31, 2017.

Loan Portfolio Composition by Original Amount				
Loan Category	\$ of Loans (000s)	% of \$	# of Loans	% of #
Agricultural and Farmland	\$25,529	79%	339	43%
Commercial and Commercial Real Estate	\$4,583	14%	161	20%
Consumer	\$2,227	7%	299	37%
Residential Real Estate (1-4 Family)	\$0	0%	0	0%
TOTAL	\$32,339	100%	799	100%

Source: Bank Loan Trial Balance

FNB's business strategy is to provide strong customer service to agricultural, consumer, commercial, and real estate customers in Briscoe, Hall, and Swisher Counties. The bank received a Satisfactory rating at its April 11, 2011 CRA evaluation. FNB has no legal or financial circumstances that would limit its ability to help meet community credit needs.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The CRA evaluation period is April 12, 2011 through November 13, 2017. We evaluated FNB using Small Bank criteria, which collectively form the Lending Test. The bank's primary product is farm loans, by both dollar volume and number of loans. We sampled 28 farm loans originated between January 1, 2015 and August 31, 2017.

Data Integrity

We obtained financial and geographic information directly from the bank's loan files.

Selection of Areas for Full-Scope Review

FNB has one assessment area, which will receive a full-scope review.

Ratings

The bank's overall rating is based on the AA receiving a full-scope review.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §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 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.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the Lending Test is satisfactory.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, local completion, and AA credit needs. This determination is based on the bank's quarterly average net LTD ratio for 27 quarters from March 31, 2011 through September 30, 2017 of 57 percent. The quarterly average net LTD ratios of four similarly situated banks with total assets under \$100 million located in or adjacent to the AA ranges from 54 percent to 80 percent, and averages 66 percent.

Institution	Total Assets (\$000s) As of 09/30/2017	Average Quarterly LTD Ratio As of 09/30/2017
First National Bank of Quitaque	51,814	56.83
First State Bank, Abernathy	41,890	75.57
First National Bank of Floydada	99,319	54.13
Kress National Bank	38,525	55.08
First Bank and Trust of Memphis	57,743	79.55

Source: Institution Reports of Condition from March 2011 to September 2017

Lending in Assessment Area

A majority of FNB's loans, 79 percent by number and 78 percent by dollar amount, were extended to borrowers who operate farms inside the AA. The breakdown is illustrated in the following table.

Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	22	79	6	21	28	3,376	78	945	22	4,321

Source: Sample of loans used for CRA performance analysis

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

FNB's loan portfolio reflects reasonable penetration among farms of different sizes within the AA. Ninety-one percent of sampled farm loans were originated to farms with less than or equal to \$1 million in gross annual revenues. Demographic information shows that 97 percent of AA farms report revenues less than or equal to \$1 million.

Borrower Distribution of Loans to Farms in the AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.35	0.88	1.77	100%
% of Farm Loans in AA by #	90.91	9.09	0	100%
% of Farm Loans in AA by \$	68.78	31.22	0	100%

Source: Loan sample; 2016 Dun and Bradstreet data.

Geographic Distribution of Loans

FNB's geographic distribution of loans reflects reasonable dispersion given the bank's performance context, business strategy and AA's demographics. Eighteen percent of farm loans were originated in the one moderate-income census tract. This is slightly below demographic information showing 29 percent of farms are located in the moderate-income census tract.

Geographic Distribution of Loans to Farms in the AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farms	0.00	0.00	28.76	18.18	71.24	81.82	0.00	0.00

Source: Loan sample; 2016 Dun and Bradstreet data.

Responses to Complaints

Neither the bank nor the OCC have received any CRA-related complaints during the evaluation period. This has a neutral effect on the bank's CRA performance.

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 (excludes CD loans): 1/1/2015 to 8/31/2017 Investment and Service Tests and CD Loans: NA	
Financial Institution		Products Reviewed
The First National Bank of Quitaque (FNB) Quitaque, Texas		Farm Loans
Affiliate(s)	Affiliate Relationship	Products Reviewed
None		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Briscoe, Hall, and Swisher Counties in Texas	Full-Scope	

Appendix B: Community Profiles for Full-Scope Areas

Briscoe, Hall, and Swisher Counties Assessment Area

Demographic Information for Full-Scope Area: Briscoe-Swisher-Hall Counties						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	5	0.00	20.00	80.00	0.00	0.00
Population by Geography	12,844	0.00	26.11	73.89	0.00	0.00
Owner-Occupied Housing by Geography	3,378	0.00	28.57	71.43	0.00	0.00
Businesses by Geography	766	0.00	31.59	68.49	0.00	0.00
Farms by Geography	226	0.00	28.76	71.24	0.00	0.00
Family Distribution by Income Level	3,249	23.67	18.87	19.58	37.89	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	1,382	0.00	36.83	63.17	0.00	0.00
Median Family Income	= \$52,076	Median Housing Value				= \$53,502
FFIEC Adjusted Median Family Income for 2017	= \$54,200	Unemployment Rate				= 4.2%
Households Below the Poverty Level	= 935					

FNB has designated Briscoe, Hall, and Swisher Counties as its AA. The AA meets legal requirements as it consists of whole geographies and does not arbitrarily exclude any low- or moderate-income geographies. Briscoe and Swisher Counties consist of four middle-income census tracts while Hall County consists of one moderate-income census tract. All three counties are agricultural-based, centered in cattle and growing crops. The latter includes cotton, wheat, and sorghum, plus pastureland used for hay.

Economic conditions are stable. Non-agricultural employers include independent school districts, the Texas Department of Corrections (Tulia), and Caprock Canyon State Park. Unemployment is highest in Hall County at 5.2 percent in November 2017, with Briscoe County and Swisher County both at 3.7 percent. All are comparable to the state of Texas at 3.7 percent and the nation at 4.1 percent.

Competition is strong given the rural nature of the AA. Nine financial institutions have one or more offices located in the AA. FNB has a 13 percent deposit market share, ranking fourth among these banks. Happy State Bank has the highest deposit market share at 25 percent, with Centennial Bank and First Bank and Trust of Memphis both at 16 percent. Wells Fargo Bank, NA also has a branch in the AA.

Based on 2010 Census data, the AA has a total population of 12,844, a 7.9 percent decrease from 2000 Census data. Bank management stated that medical access is a

primary concern in the community. Local access to physicians is very limited and has caused residents to move to larger communities with readily accessible health care. Additional reduction in population is the result of technological advancements in the agricultural sector, which has led to a reduced labor requirement on local farms.

One individual in the community was interviewed for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining their performance. Local economic growth is flat in recent years, driven by the agricultural cycle and commodities prices. The individual stated that FNB is very cooperative and diligent in trying to meet the community's credit needs, with several members of the bank's staff participating in and chairing community activities. For example, FNB President Guy Young serves as the president of the local economic development council.