



PUBLIC DISCLOSURE

October 24, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank
Charter Number 10230

717 10th Street
Paducah, TX 79248

Office of the Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289
Suite 108
Lubbock, TX 79424-1319

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

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

- First National Bank of Paducah (FNB) has a reasonable quarterly average net loan-to-deposit ratio of 35.59 percent during the evaluation period.
- FNB originated a majority of its loans by number (80 percent) and dollar volume (91 percent) to farms and individuals located within the assessment area (AA).
- FNB's loan portfolio reflects an overall reasonable penetration among farms of different sizes and individuals of various income levels within the AA.

SCOPE OF EXAMINATION

We evaluated FNB under the small bank performance standards, which include five performance criteria: the loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, geographic distribution of loans, and responses to CRA-related complaints.

To evaluate FNB's lending performance, a random sample of loans was selected based on the bank's primary loan types. Primary loan types are those products that have been originated at the highest percentage by number and/or dollar volume of loans. During this evaluation period, primary products consisted of agricultural and consumer loans. To assess performance, we reviewed 25 agricultural and 30 consumer loans originated between January 1, 2014 and September 30, 2016 in FNB's AA.

DESCRIPTION OF INSTITUTION

FNB is a \$44 million community bank located in Paducah, Texas approximately 115 miles northeast of Lubbock. FNB is a wholly owned subsidiary of First Paducah Bancshares of Texas, Inc., a single bank holding company. FNB is an intrastate bank with one banking office located in Paducah. FNB also has loan production offices in Canyon and Stevenville, Texas.

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. FNB also offers basic online banking services at www.fnbpaducah.com.

As of June 30, 2016, net loans and leases comprised 44.6 percent of total assets. The bank's primary loan products include agricultural (by dollar volume) and consumer (by number) loans. The following table shows the composition of the loan portfolio.

Outstanding Loans by Original Amount as of September 30, 2016				
<i>Loan Type</i>	<i># of Loans</i>	<i>% of #</i>	<i>\$ of Loans</i>	<i>% of \$</i>
Agricultural and Farmland	211	28%	\$9,618	46%
Consumer	432	56%	\$2,669	13%
Commercial and Commercial Real Estate	107	14%	\$7,968	38%
Residential Real Estate (1-4 Family)	18	2%	\$656	3%
Total	768	100%	\$20,911	100%

Source: Call Report dated September 30, 2016

The bank's business strategy is to service agricultural, consumer, commercial, and real estate customers in Cottle and Childress Counties. The bank received a Satisfactory rating at its February 22, 2010 CRA evaluation. FNB has no legal or financial circumstances that would impede the bank's ability to help meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

FNB has designated Cottle and Childress Counties as its AA. The AA is comprised of whole geographies, meets regulatory requirements, and does not arbitrarily exclude any low- or moderate-income areas. There are three census tracts in the AA. Two are middle-income, and one is upper-income. The 2016 HUD adjusted median family income is \$52,800. The AA has a population of 8,586. About 16 percent of households are below the poverty level. The unemployment rate for Childress County is 3.5 percent, while the unemployment rate for Cottle County is 5.7 percent, which approximates the state of Texas and the United States unemployment rates, both at 4.9 percent.

Competition is strong for both deposits and loans. In addition to FNB, four other financial institutions operate within the AA. The June 30, 2016 FDIC Market Share Report shows that FNB ranks second with 23 percent of all deposits. A large state bank maintains almost half of the AA deposits.

The AA economy is based on agricultural production, particularly cotton and livestock operations. Other major employers in the AA include Childress Independent School District, Paducah Independent School District, a Department of Criminal Justice Prison, and Wal-Mart.

We contacted a local governmental office to obtain a community profile and identify opportunities for community development participation by local institutions. Economic conditions are stable. Our contact did not identify any specific credit needs, and indicated there were minimal community development opportunities for local financial

institutions. The financial institutions are helpful with time and donations to community projects, as well as making small consumer and farm loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, local competition, and AA credit needs. This determination is based on the bank’s quarterly average net LTD ratio for 27 quarters from December 31, 2009 through June 30, 2016 of 35.59 percent. The average net LTD ratio of other similarly situated banks located in or adjacent to the AA for the same period was somewhat higher at 60.06 percent. However, FNB’s LTD ratio has shown a steady increase with a low of 28.73 percent at September 30, 2011 to a high of 49.45 percent at June 30, 2016.

Loan-to-Deposit Ratios		
<i>Institution Name</i>	<i>Total Assets (000s)</i>	<i>Quarterly Average Net Loan-to-Deposit Ratio</i>
First National Bank of Paducah	43,936	35.59
First Bank and Trust of Childress	91,968	75.91
First Bank and Trust of Memphis	61,621	77.87
Spur Security Bank	44,399	26.42

Source: Institution Reports of Condition from December 2009 to June 2016.

Lending in Assessment Area

A majority of FNB’s loans, 80 percent by number and 91 percent by dollar amount, were extended to borrowers who live or operate farms inside the AA. The breakdown by loan type is illustrated in the following table.

Lending in AA										
<i>Loan Type</i>	<i>Number of Loans</i>					<i>Dollars of Loans (000s)</i>				
	<i>Inside</i>		<i>Outside</i>		<i>Total</i>	<i>Inside</i>		<i>Outside</i>		<i>Total</i>
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	
Farm	20	80	5	20	25	\$2,218	93	\$170	7	\$2,388
Consumer	24	80	6	20	30	\$282	79	\$74	21	\$356
Totals	44	80	11	20	55	\$2,500	91	\$244	9	\$2,744

Source: Sample of loans used for CRA performance analysis.

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

FNB’s loan portfolio reflects an overall reasonable penetration among farms of different sizes and among individuals of various income levels within the bank’s AA. To perform our analysis, we reviewed revenue information for 20 agricultural loans and 24 consumer loans originated in the AA during 2014, 2015, and year-to-date 2016.

The percentage of FNB farm loans by number and dollar volume is reasonable compared to AA farms with gross annual revenues less than or equal to \$1 million. Ninety percent of sampled loans were to farms with less than or equal to \$1 million in gross annual revenues compared to 95 percent of AA farms reporting gross annual revenues less than or equal to \$1 million.

Borrower Distribution of Farm Loans in AA				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unknown</i>	<i>Total</i>
% of AA Farms	94.95	2.02	3.03	100%
% of Farm Loans in AA by #	90.00	10.00	-	100%
% of Farm Loans in AA by \$	88.53	11.47	-	100%

Source: Loan sample; 2015 Dunn and Bradstreet data

The percentage of FNB’s consumer loans significantly exceeds the ratio of moderate-income households and is slightly below the ratio of low-income households in the AA. FNB originated 25 percent of consumer loans by number to moderate-income households and 21 percent to low-income households, compared to the AA demographics of 13 percent and 23 percent, respectively.

Borrower Distribution of Consumer Loans in AA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>
Consumer Loans	23.21	20.83	12.77	25.00	25.05	37.50	38.97	16.67

Source: Loan sample; 2010 U.S Census data

Geographic Distribution of Loans

FNB's AA does not contain low- or moderate-income census tracts. For this reason, a geographic distribution analysis is not meaningful and was not performed.

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.

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, or 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.