



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

March 22, 2013

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank Texas  
Charter Number 5750

507 North Gray, Killeen, TX 76540

Office of the Comptroller of the Currency  
Southern District  
San Antonio 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 the 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.

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**INSTITUTION'S CRA RATING: This institution is rated Needs to Improve.**

**The Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Satisfactory**

The primary factors supporting the rating are summarized below:

- The full-scope, onsite examination dated February 10, 2014, identified violations of Section 5 of the Federal Trade Commission Act (FTC Act) in the bank's overdraft programs. These violations adversely affected the overall rating and resulted in reducing the rating from "Satisfactory" to "Needs to Improve". Refer to the FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW comment for further information.
- The bank's loan-to-deposit (LTD) ratio is reasonable when considering the volume of mortgage loan originations that are not reflected in this ratio and the impact of law changes during the evaluation period that eliminated the bank's ability to make new student loans.
- The bank originated a substantial majority (95%) of its loans within the designated assessment areas (AAs).
- The distribution of loans by borrower income and geography in Texas is reasonable and meets the standard for satisfactory performance.
- The bank's qualified investments and Community Development (CD) loans in the larger Texas AAs reflect an adequate responsiveness to affordable housing needs.
- The bank has demonstrated adequate responsiveness to CD related activities in its larger Texas markets, focusing primarily on financial literacy programs.

**SCOPE OF EXAMINATION**

We evaluated First National Bank Texas (FNBTX) using the Intermediate Small Bank (ISB) examination procedures, which include Lending and Community Development Tests. The Lending Test evaluates the bank's record of meeting the credit needs of its AA through lending activities. The Community Development Test evaluates the bank's responsiveness to the identified needs in its AA through lending, qualified investments, and services.

Our review focused on the bank's primary loan products, which are home purchase loans and small consumer loans. In addition, in the Killeen and Houston markets, our review included business loans. Where applicable, our analysis also included a review of purchased student loans in the bank's AAs. Income information was not available for review on the purchased student loans.

In our analysis for loan originations in the years 2010 - 2011, we compared the bank's performance to AA demographics in the 2000 Census. For our analysis of loan originations in 2012, we used demographics from the 2010 Census data as the comparative data.

Our analysis of residential real estate loans included a review of all loans submitted pursuant to the Home Mortgage Disclosure Act of 1975 (HMDA) in the years 2010 - 2012. Our analysis of business loans included a review of business loan originations from 2010 through first quarter 2013. For the income and geographical distribution analysis on business loans, we sampled 60 business loans per AA in the Killeen and Houston AAs. For our analysis of the bank's business loan originations, we compared the bank's performance in 2010 - 2011 to the 2011 Dunn & Bradstreet (D&B) business demographic data. We used the 2012 D&B demographic data as the comparator for lending performance in 2012. In addition, we used the applicable 2000 and 2010 Census data in our business loan geographic distribution analysis.

The consumer loan analysis included a review of secured and unsecured consumer loan originations between the years 2010 - 2012. We sampled 30 loans per AA per Census year in the full scope AAs and 20-25 loans per AA per Census year in the limited scope AAs.

When evaluating the bank's lending volume within its AAs, we used HMDA data and bank-prepared reports for loans originated during the years 2010 - 2012. We validated the integrity of the HMDA data and system-generated bank reports and concluded that the data was reliable. The bank's mortgage department does business under the name First Community Mortgage Company (FCMC). This company is a division of FNBT and as such, FCMC's loans are included in the FNBT HMDA reports.

The evaluation period for the Community Development Test covers the period since our last CRA evaluation – September 16, 2009, to the start date of this evaluation, March 22, 2013.

We tested the CD loans, investments and services submitted by management to ensure they met the regulatory definition for community development.

There are five AAs in Texas, Arizona, and New Mexico where branches have been open for less than a year, and there was not enough loan volume in these areas to perform a meaningful analysis. These five AAs, which were excluded from the scope of our review, included the following: Beaumont - Port Arthur and Brownsville MSAs in Texas, the Tucson and Santa Cruz AAs in Arizona, and Lea County in New Mexico.

## **DESCRIPTION OF INSTITUTION**

Headquartered in Killeen, Texas, FNBTX is an interstate bank with total assets of \$1.03 billion as of December 31, 2012. The bank was chartered in 1901 and is the lead bank for its holding company, First Community Bancshares, Inc. (FCBI). The holding company owns 100% of FNBTX and its sister bank, Fort Hood National Bank, which is located on the Fort Hood military base in Fort Hood, Texas, adjacent to the city of Killeen.

FNBTX has 297 branches and 422 ATMs in three states and 75 counties. Over 90% of the bank's branch locations are in retail grocery stores such as Wal-Mart, Kroger, and HEB. In this Performance Evaluation (PE), we refer to the retail store locations as "in-store" branches. FNBTX does business under the name "First Convenience Bank" within the "in-store" branches.

The bank's primary market area is Texas with 99% of total deposits and 272 branch locations. The bank has nine traditional brick and mortar offices, six of which are located in the Killeen – Temple - Fort Hood (KTFH) metropolitan statistical area (MSA) and three are located in the Houston – Sugarland – Baytown (HSB) MSA. Additionally, the bank's mortgage division, FCMC, has seven locations in the KTFH MSA, one office in Conroe, Texas, which is in the HSB MSA, and one in El Paso, Texas.

The KTFH and HSB MSAs are the bank's largest AAs with 63% percent of total deposits and 76 banking offices, including the nine traditional branch office locations. The bank's main office is located in Killeen, Texas.

Since the last examination, FNBTX has opened 89 new in-store branches, with 14 new locations in Arizona and nine in New Mexico. FNBTX designates the entire counties where these branches are located as AAs.

Generally, FNBTX offers the same types of products and services in all locations. Branch hours may vary in each market but not significantly. Loan officers are not available in all of the in-store branch locations; however, consumer loan applications and mortgage pre-qualification applications can be submitted at branch locations and online through the bank's website. Commercial loan officers are located only in the bank's traditional branch offices in Killeen and Houston.

Since the last evaluation period, FNBTX has introduced several new products and services including: Remote Deposit Capture and Merchant Processing for commercial customers; intra-bank transfers for any FNBTX customer; and Internet banking alerts, which allow customers to set-up daily balance notifications and low-balance alerts. FNBTX began offering Mobile Banking in December 2010, giving all customers the ability to access their account information via text and a smart phone application. This free service also enables customers to transfer funds between their accounts.

All locations began offering a reloadable Pre-Paid Debit MasterCard in December 2011. The Pre-Paid card is accepted anywhere MasterCard is accepted and can be loaded and reloaded at any banking center or by using the MasterCard RePower Network. Pre-Paid Debit Card customers can access their account information by phone or online at no cost.

Beginning in September 2012, FNBTX began offering secured and unsecured credit cards and a Small Business Credit Card through a referral arrangement with another financial institution. The bank reports performance on the secured card to consumer reporting agencies, which can provide the borrower an opportunity to improve his/her credit history and thereby his/her access to competitive credit products. The available limit on this card is from \$300 to \$5 thousand. To date, these programs have not generated any significant volumes.

In 2010, FNBTX launched the Smart Cash Small Dollar Loan Program in an effort to provide customers with an affordable small dollar loan product. The Smart Cash program allows customers to obtain an unsecured loan with reasonable terms and build their credit.

Smart Cash loans range from \$200 to \$1 thousand, with a 12% interest rate and a term of three to fifteen months. This program also includes a financial education component, requiring each customer to complete a Money Management training course. Since origination in 2010, Smart Cash Originations have totaled \$992 thousand with an average loan amount of \$555. While the bank has seen increased interest in this loan product, the size of these loans does not significantly affect the bank's LTD ratio.

The bank also offers Fresh Start loans (FSLs), which are loans to pay overdrafts (ODs) and fees over a longer period than a typical OD repayment. These loans represent 28% of the bank's consumer portfolio and were not included in the scope of our lending analysis since the purpose of the loans is to repay ODs and related fees.

The bank's loan portfolio totaled \$263 million at year-end 2012, representing 26% of total assets. As reflected in the scope section of this Evaluation, consumer loans and residential mortgages are the bank's primary loan products. The average loan size for consumer loans is very small at approximately \$800 dollars; however, the number of consumer and residential loans is very high representing over 90% of the entire loan portfolio.

FCCM specializes in VA and FHA loans, which represent over 95% of all residential loan originations. Aggregate HMDA data shows that FNBTX has been a leader for the past few years in mortgage originations in the KTFH MSA.

During 2010, FNBTX achieved a 14.83% market share by dollar volume of home purchase loans, ranking 1<sup>st</sup> among 167 reporting lenders for the Killeen MSA. By number of loans, the bank also ranked 1<sup>st</sup> with a 15.43% market share. In 2011, the bank had a 15.26% market share by dollar volume of home purchase loans, ranking 1<sup>st</sup> among 170 reporting lenders. By number of home purchase loans, the bank also ranked 1<sup>st</sup> in 2011 with a 15.74% market share.

FNBTX also offers business loans in the larger Killeen and Houston markets, where their commercial lenders are located. The composition of the loan portfolio is further summarized in the chart below:

LOAN PORTFOLIO SUMMARY BY PRODUCT DECEMBER 31, 2012		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Real Estate (RE) Construction and Land Development	6,054	2%
Loans Secured by Farmland	532	.2%
RE Residential (1-4 Family)	78,088	30%
RE Multifamily	6,954	3%
Business loans	89,093	35%
Consumer Loans	82,120	30%
<b>Total Loan Portfolio</b>	<b>262,841</b>	<b>100%</b>

Source: Institution Consolidated Reports of Condition as of December 31, 2012

Since the last CRA evaluation on September 16, 2009, FNBTX's total assets have increased approximately \$200 million from \$803 million to \$1 billion. The bank's Tier 1 capital was \$76 million at year-end 2012, representing 7.25% of average assets.

There are no legal, financial, or other factors that impede FNBTX's ability to meet the credit needs in its AA. However, see Fair Lending or Other Illegal Credit Practices Review for additional information related to the identified violations of Section 5 of the FTC Act.

In the previous CRA examination, FNBTX was rated "Satisfactory" under the intermediate-small bank criteria.

### **SELECTION OF AREAS FOR FULL-SCOPE REVIEW**

In each state where the bank has an office, we selected a sample of one or more AAs for full-scope reviews.

In general, the AAs selected for the full-scope review have the largest percentage of FNBTX's deposits, locations, and loans in that state. In Texas, we selected the KTFH, HSB, and Dallas – Plano - Irving (DPI) AAs for full-scope reviews.

In Arizona and New Mexico, we performed full-scope reviews in metropolitan areas where the in-store branches had been open the longest. In Arizona, we selected the Phoenix AA and in New Mexico, we selected the Las Cruces AA for full scope reviews.

### **RATINGS**

The bank's overall rating is a blend of the state ratings. The rating for the state of Texas carried the most weight since 99% of the bank's loans and deposits are from Texas branches. In addition, over 90% of the bank's branch offices are located in Texas.

Performance in the states of Arizona and New Mexico did not significantly influence the overall rating as total loans and deposits in these states represent less than 1% of the bank's total loans and deposits. The oldest branches in these states have been open for only approximately 15 months, which is approximately one-half of the evaluation period. A summary of loan originations and deposits by state is provided in the following chart.

LOANS AND DEPOSITS BY STATE							
LOAN TYPE 12/31/2012	TEXAS \$(000'S)	% LOAN TYPE	ARIZONA \$(000'S)	% LOAN TYPE	NEW MEXICO \$(000'S)	% LOAN TYPE	TOTAL LOAN ORIGINATIONS \$(000'S)
Residential Real Estate	459,632	99.74	56	0.01	1,149	0.25	460,837
Business loans	118,095	99.58	500	0.42	0	0.00	118,595
Consumer Loans	28,236	99.79	34	0.12	25	.09	28,295
Purchased Rehab Loans	13,128	97.96	130	0.97	144	1.07	13,402
<b>Total Loan Originations and Purchases</b>	<b>619,091</b>	<b>99.67</b>	<b>720</b>	<b>0.12</b>	<b>1,318</b>	<b>0.21</b>	<b>621,129</b>
DEPOSITS BY STATE 12/31/2012	TEXAS \$(000'S)	% TOTAL DEPOSITS	ARIZONA \$(000'S)	% TOTAL DEPOSITS	NEW MEXICO \$(000'S)	%TOTAL DEPOSITS	TOTAL DEPOSITS \$(000'S)
<b>FNBTX Deposits</b>	<b>896,885</b>	<b>99.29</b>	<b>4,349</b>	<b>0.48</b>	<b>2,027</b>	<b>0.23</b>	<b>903,261</b>

Source: 12/31/2012 Call Report, HMDA Reports, Bank Reports for loans originations, deposits 2010-2012.

We based the ratings primarily on the areas that received full-scope reviews, but we also considered the bank's performance in areas receiving limited-scope reviews.

In many of the limited-scope AAs, the bank made few, if any, HMDA or small business loans. Where there was an insufficient volume of loans to analyze, we noted this in the narrative for the applicable rating area and no analysis was performed. In addition, there were a few limited scope AAs with an insufficient volume of consumer loans to perform an analysis, and we noted this in the narrative.

When evaluating the bank's LTD ratio as part of the Lending Test, we considered residential loans sold and not reflected in the LTD ratio. We placed more weight on the volume of residential loan originations than the remaining residential loan balances because of the bank's significant market share in its largest market; also, these loans have a greater impact in meeting AA housing needs. The geographic distribution test did not weigh as heavily in overall ratings as the other lending assessment factors.

We placed more weight on CD activities in the Texas full-scope AAs where the majority of the bank's loans and deposits are located. Refer to the "Scope" section under each State for details regarding how the areas were weighted in arriving at the respective ratings.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Lending Test

FNBTX's performance under the Lending Test is satisfactory when considering the performance context and the distribution of the bank's loans to borrowers of different income levels.



## Loan-to-Deposit Ratio

Overall, the bank's LTD is reasonable when considering the performance context and volume of mortgage loans sold on the secondary market.

FNBTX's LTD ratio is low, averaging only 28% over the past 14 quarters since the last CRA examination; however, there are a few factors affecting the bank's performance that merit consideration in evaluating lending performance.

The bank's LTD ratio has historically been low and below competitors in the largest markets (Killeen and Houston) due in part to the large volume of very small loans in the consumer portfolio and the fact that the bank sells most of its mortgage loans on the secondary market.

The bank's main office and traditional 'brick and mortar' branches are located in Killeen and Houston and in these locations, the bank's lending performance is more closely aligned with local competitors. In the KTFH AA, the LTD ratio for the traditional branch locations approximated 40% at year-end 2012 and in Houston, the year-end LTD ratio approximated 65% for the traditional branch locations.

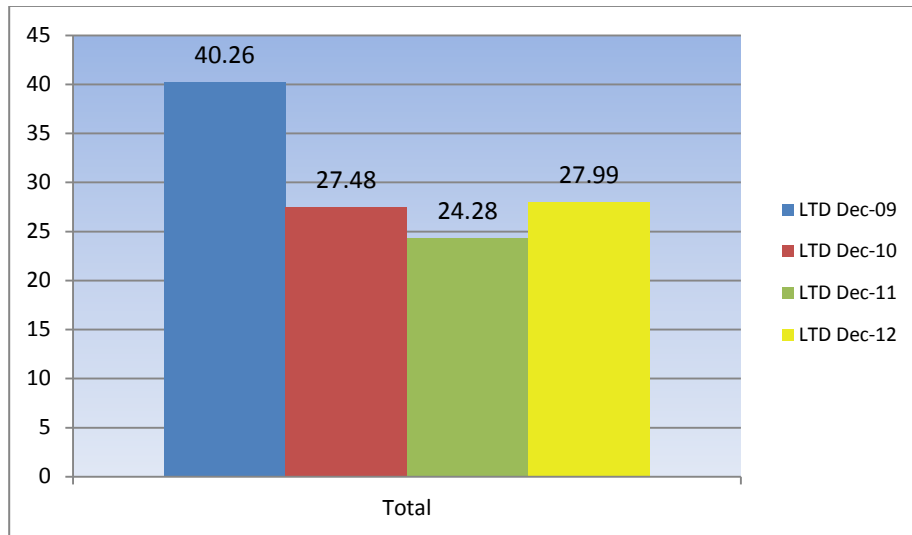
During the period 2010 through 2012, FNBTX originated and sold over \$400 million in longer-term fixed rate mortgage loans to private investors in the secondary market. This volume of loans represents two times the size of the entire loan portfolio. Approximately 95% of these loans are government-guaranteed FHA and VA loans originated in the bank's AAs. In the third quarter of 2012, FNBTX began retaining some of these loans to increase the bank's LTD ratio.

Another factor affecting the bank's LTD ratio is the sale of a student loan portfolio. New regulations enacted in 2010 restricted private businesses (including banks) from offering federally guaranteed student loans. During the previous CRA evaluation period, federally guaranteed student loan originations represented a significant portion of the bank's consumer loan portfolio, averaging \$80 million in both 2008 and 2009. Because of these new regulatory changes, the bank sold 45,867 student loans totaling \$146 million and ceased directly making new federally guaranteed student loans. This regulatory change negatively affected FNBTX's LTD ratio.

In 2012, FNBTX initiated two new programs to help increase its LTD ratio. The first program, a mortgage retention program, involves retaining a portion of the VA and FHA mortgage loans originated by FCMC that previously would have been sold in the secondary market.

The second program is a new rehabilitated student loan program, which involves the purchase of restructured (rehabilitated) student loans. Through the first quarter 2013, FNBTX had purchased approximately \$21 million in rehabilitated (rehab) student loans and retained \$23 million in mortgage loans.

Trends in FNBTX's LTD ratio are depicted in the following graph. The graph reflects a sharp decline in the bank's LTD ratio in 2010 after the sale of the student loan portfolio and an improving trend in 2012 with the new student loan purchase and mortgage retention programs.



Source: LTD Ratio Institution Consolidated Reports of Condition

FNBTX’s business strategy, interstate branch network, and retail store focus are unique for a bank of this size. We found no financial institutions of a similar size with similar financial resources and market focus.

The chart below includes some of the most similar local competitors in terms of asset size. Some of these institutions also have mortgage banking operations and sell loans on the secondary market, but not all of these institutions have similar in-store branch networks and focus on the un-banked and under-banked markets. Woodforest National Bank in The Woodlands, TX and The City National Bank and Trust Company of Lawton, OK do have similar in-store branch networks, but they have also have different market areas and their asset sizes are not similar.

INSTITUTION	ASSETS As Of 12/31/2012	AVERAGE QUARTERLY LOAN-TO-DEPOSIT RATIO As Of 12/31/2012
<b>First National Bank Texas – Killeen, TX</b>	<b>1,030,419</b>	<b>27.69%</b>
Extraco Banks, NA, Temple, TX	1,229,651	75.27%
First State Bank Central Texas, Austin, TX	1,182,864	68.64%
First Texas Bank, Killeen, TX	249,203	37.67%
First Bank, NA, Conroe, TX	325,591	83.04%
National Bank, Gatesville, TX	521,910	59.89%
Union State Bank, Florence, TX	458,987	45.55%
Woodforest National Bank, Woodlands, TX	3,701,612	52.31%
The City National Bank and Trust Company of Lawton, OK	366,863	70.29%

Source: Institution Consolidated Reports of Condition

The significant volume of mortgage loan originations is a mitigating factor in the low LTD ratio.

## Lending in Assessment Area

A substantial majority of FNBTX's loans are to customers within its AAs. The table below includes a summary of the number and dollar volume of loans originated within the bank's AAs during the evaluation period. The majority of home purchase loans are in the KTFH, El Paso and Houston AAs.

Table 1 LENDING IN ASSESSMENT AREA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	2720	96%	118	4%	2838	399,187	95%	21,648	5%	420,835
Home Improvement	11	85%	2	15%	13	3,483	97%	100	3%	3,583
Refinance	349	92%	32	8%	381	58,167	89%	7,023	11%	65,190
Total Real Estate	3,080	95%	152	5%	3232	460,837	94%	28,771	6%	489,608
Consumer Loans <sup>1</sup>	5,699	93%	404	7%	6,103	27,413	94%	1,628	6%	29,041
Commercial/Business Loans	450	99%	5	1%	455	115,308	98%	2,787	2%	118,095
<b>Totals</b>	<b>3295</b>	<b>95%</b>	<b>164</b>	<b>5%</b>	<b>3459</b>	<b>603,558</b>	<b>95%</b>	<b>33,186</b>	<b>5%</b>	<b>636,744</b>

Source: HMDA, Bank Reports, Loan Samples 2010-2013

## FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(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.

The full-scope, onsite examination dated February 10, 2014, identified violations of Section 5 of the FTC Act, 15 USC 45, in certain practices relating to the Overdraft Privilege Program and the Fresh Start Loan Program. These programs were offered bank-wide, and the violations impacted customers throughout the branching network. While the bank has some policies, training initiatives, and internal controls to prevent discriminatory or other illegal credit practices, we identified unfair and deceptive practices. As a result, the CRA Performance Evaluation rating was reduced from "Satisfactory" to "Needs to Improve."

1. The consumer lending assessment is based upon a review of bank reports, verified through sampling.

## **STATE RATING**

### **STATE OF TEXAS**

**CRA Rating for Texas: Satisfactory**

**The Lending Test is rated: Satisfactory**

**The Community Development Test is rated: Satisfactory**

- The overall level of lending is adequate when considering the volume of mortgage loan originations in the bank's largest Texas AAs.
- The distribution of loans by borrower income represents a reasonable penetration among individuals of different income levels. The geographic dispersion of loans is also reasonable.
- CD investments, loans and services reflect an adequate responsiveness in the full scope AAs.

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN TEXAS**

FNBTX's primary operations are located in Texas with 272 in-store branches and 398 automated teller machines (ATMs). As mentioned in the "Description of the Institution" section of this PE, the bank's nine traditional branch offices are also located in Texas. The number of branches and ATMs in Texas represents over 93% of the bank's entire branch network. Loans and deposits from Texas are approximately 99% of the FNBTX's total loan and deposit base. In 2010 and 2011, FNBTX was the market leader for mortgage originations in the KTFH AA.

In the FDIC's June 30, 2012 Market Share Report, FNBTX reported \$893 million in deposits within the state of Texas. Competition in Texas is very strong with 648 financial institutions and 6,856 banking offices. FNBTX ranked 5<sup>th</sup> in the state for the number of branch locations. The only Institutions in Texas with a larger number of branches included some of the largest banks in the nation: JP Morgan Chase Bank, Bank of America, Wells Fargo, and Compass Bank.

FNBTX has branches located in 24 Texas MSAs and 22 rural counties (non-MSAs). FNBTX designates AAs in each county where its branches are located. The bank's AAs are listed in the following chart.

24 TEXAS METROPOLITAN STATISTICAL AREAS (MSAs) AND DIVISIONS	22 TEXAS NON-MSA COUNTIES
Amarillo	Angelina County – Lufkin, TX
Austin-Round Rock-San Marcos	Anderson County – Palestine, TX
Beaumont-Port Arthur	Bee County – Beeville, TX
Brownsville-Harlingen	Burnet County - Marble Falls, TX
College Station-Bryan	Deaf Smith County - Hereford, TX
Corpus Christi	Erath County - Stephenville, TX
Dallas-Plano-Irving	Gray County - Pampa, TX
El Paso	Hale County – Plainview, TX
Fort Worth-Arlington	Hill County - Hillsboro, TX
Houston-Sugarland -Baytown	Hockley County - Levelland, TX
Killeen-Temple-Fort Hood	Hood County - Granbury, TX
Laredo	Hopkins County – Sulphur Spring, TX
Longview	Jim Wells County – Alice, TX
Lubbock	Kerr County – Kerrville, TX
Midland	Matagorda County - Bay City, TX
Odessa	Moore County - Dumas, TX
San Angelo	Nacogdoches County - Nacogdoches, TX
San Antonio-New Braunfels	Palo Pinto County - Mineral Wells, TX
Sherman-Denison	Uvalde County - Uvalde, TX
Texarkana	Walker County - Huntsville, TX
Tyler	Wharton County – El Campo, TX
Victoria	Young County - Graham, TX
Waco	
Wichita Falls	

The Top 5 AAs in terms of deposit market share are listed below.

FNBTX TOP 5 ASSESSMENT AREAS	
Metropolitan Statistical Area	% of Total Deposits (6/30/2012)
Killeen – Temple - Ft Hood	43.49%
Houston - Sugar Land - Baytown	19.75%
Dallas – Plano - Irving	10.13%
Ft Worth - Arlington	6.20%
El Paso	3.83%
<b>Cumulative % for the Top 5 AAs</b>	<b>83.40%</b>

Source: FDIC Summary of Deposits; data as of June 30, 2012

Since the last CRA examination, FNBTX expanded into several new Texas markets including San Antonio in 2010; Nacogdoches and Bellmead in 2011; Port Lavaca, Bay City, Beeville, Brownsville, Kyle, Laredo, Lockhart, Port Arthur, Red Oak and Uvalde in 2012. In the first quarter of 2013, FNBTX opened new in-store branches in Austin and Lucas, TX. FNBTX purchased 22 of its 89 new locations from another institution in South Texas.

## SCOPE OF EVALUATION IN TEXAS

We selected three full-scope AAs to review for the state of Texas. These areas include:

- Killeen - Temple - Fort Hood (KTFH AA)
- Houston - Sugarland - Baytown (Houston AA)
- Dallas - Plano - Irving (Dallas AA)

The bank's performance in the full-scope AAs was weighted the most heavily in arriving at the overall conclusion for Texas, as 81% of FNBTX's mortgage lending activity and 73% of Texas deposits are centered in these three AAs. In addition, over 50% of the bank's branch and ATM network is centered in these three AAs.

FNBTX has the #1 ranking for the home purchase market in 2010 and 2011 for the Killeen MSA. As such, home purchase loans received the most weight in determining the overall rating for the Lending Test, followed by business loans in the Killeen and Houston markets. Business loans are not primary products in other AAs.

We performed limited-scope reviews on the remaining AAs in TX. When reviewing consumer loans in the limited-scope AAs, our analysis focused on Smart Cash loans and other secured loan products that allow customers to build credit histories. We also reviewed the volume of purchased student loans in the applicable AAs.

In some limited-scope AAs, we did not have enough loans to meet our minimum sample size after excluding FSLs. The limited-scope analysis will identify these AAs.

For the limited-scope analysis, we consolidated the bank's 22 Texas non-metropolitan AAs (non-MSAs) into five groups. These groups are summarized below:

**East Texas Assessment Area** - includes the rural East Texas counties of Angelina, Anderson, Hopkins, Nacogdoches, and Walker. FNBTX has one in-store (Wal-Mart) branch in each of these five counties.

**North Texas Assessment Area** - includes the rural North Texas counties of Erath, Hill, Hood, Palo Pinto, and Young. FNBTX has an in-store branch (Wal-Mart) in each of the five counties, and Hood County has two locations (HEB and Wal-Mart).

**Central Texas Assessment Area** - includes the three rural Central Texas counties of Burnet, Kerr, and Uvalde. FNBTX has in-store (Wal-Mart) branches in Burnet and Kerr Counties and an HEB location in Uvalde County.

**Panhandle Texas Assessment Area** - includes the five rural counties of Deaf Smith, Gray, Hale, Hockley, and Moore in the Northern Panhandle section of Texas. FNBTX has an in-store (Wal-Mart) branch location within each of the five counties.

**South Texas Assessment Area** - includes the four rural South Texas Counties of Bee, Jim Wells, Matagorda, and Wharton. FNBTX has Wal-Mart branches in Jim Wells and Wharton counties and HEB locations within Bee and Matagorda counties.

## **Community Contacts**

During this evaluation, we performed one community contact in the Killeen AA and reviewed information from other recent contacts performed by the OCC in conjunction with other evaluations performed in the Killeen, Houston and Dallas MSAs.

Various types of leaders of CD organizations were interviewed including affordable housing organizations, small business development, community action leaders as well as local and governmental leaders. Comments from these contacts are summarized in the Market Profiles for the full-scope AAs, which are detailed below.

## **FULL-SCOPE MARKET PROFILES**

### **Description of the Killeen – Temple - Fort Hood Assessment Area**

FNBTX has designated a portion of the KTFH MSA as its AA. The bank's KTFH AA includes Bell and Coryell Counties. The major cities in this area include Killeen, Belton, Copperas Cove, Harker Heights, Gatesville, Temple, and Salado. Adjacent to Bell and Coryell Counties, Fort Hood is one of the largest active duty armored posts in the U.S.

In the Federal Deposit Insurance Corporation's (FDIC) June 30, 2012 market share report, FNBTX reported deposits totaling \$390 million in the KTFH AA. This volume of deposits represents 44% of the total bank deposits in Texas. In its KTFH AA, FNBTX ranks third in deposit market share with 11% of total deposits. Extraco Bank is the market leader with 19% of the market share and Compass Bank is second with a 12% market share. FNBTX ranks first in the number of locations within the KTFH AA. The FDIC's report reflected 17 branches in the AA. Six of the bank's traditional branch offices are located in this AA. Three of the bank's offices and 20 ATMs in this AA were located in moderate-income CTs. There were no offices in the low-income CTs.

The KTFH AA is a very competitive market for financial services with 20 other FDIC-insured banks in the AA and over 100 non-bank institutions, pawnshops, and payday lenders. In addition, aggregate HMDA data reflects over 120 mortgage lenders with offices in the KTFH AA. FNBTX also faces strong competition in this AA from captive automobile dealerships.

### **Demographic Information**

Based on the 2010 Census data, the AA includes the entire county for both Bell and Coryell, and is comprised of 84 contiguous CTs, with three low-income areas, 19 moderate-, 42 middle-, and 16 upper-income geographies; the remaining 4 tracts were not assigned an income classification. The AA designations meet the requirements of the regulation and do not arbitrarily exclude LMI areas. The moderate-income areas adjacent to the city of Killeen include some tracts on the Fort Hood military base. The entire base is included in the AA.

As shown in the table below, the AA population is approximately 386 thousand, which is approximately 19% growth rate since 2000.

The 2012 HUD-adjusted median family income for the KTFH AA was \$56,700. Approximately 19% of the families in the AA were low-income, earning a median annual income of \$28,350 or less. Moderate-income families in the AA also represented about 19% of the families, earning an annual income of \$45,360 or less. Census and updated HUD information indicates that about 12% of all households in the AA had incomes below the poverty level. Demographic information for the AA is further summarized in the following chart.

DEMOGRAPHIC INFORMATION FOR FULL SCOPE AREA: KILLEEN – TEMPLE - FORT HOOD ASSESSMENT AREA FOR CENSUS 2010						
<i>Demographic Characteristics</i>	<i>#</i>	<i>Low % of #</i>	<i>Moderate % of #</i>	<i>Middle % of #</i>	<i>Upper % of #</i>	<i>NA* % of #</i>
Geographies (Census Tracts/BNAs)	84	3.57	22.62	50.00	19.05	4.76
Population by Geography	385,623	2.22	17.31	58.29	21.50	0.68
Owner-Occupied Housing by Geography	71,432	1.29	8.77	61.65	28.30	0.00
Business by Geography	27,610	1.56	18.26	53.32	25.77	1.09
Farms by Geography	1,288	1.40	8.54	62.50	26.79	0.78
Family Distribution by Income Level	89,044	19.40	19.10	21.64	39.85	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	34,287	3.21	26.75	58.08	11.96	0.00
Median Family Income		\$54,774	Median Housing Value	\$104,729		
HUD Adjusted Median Family Income for 2012		\$56,700	Unemployment Rate	7.5%		
Households Below Poverty Level		12%	(Based on 2012 BLS)			

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2010 US Census, 2012 HUD updated MFI, and Bureau of Labor and Statistics (BLS)

### Employment and Economic Factors

The medical, logistics, and military sectors continue to lead growth in the KTFH AA. The Fort Hood military base is an integral part in the continued growth of the economy as the largest single site employer in the MSA. The Texas State Comptroller estimates Fort Hood’s economic impact to central Texas to be approximately \$11 billion. Fort Hood’s quick facts reflect 50 thousand active duty personnel are assigned to the base, with an additional 17 thousand family members on-post, and 90 thousand family members off-post. Fort Hood also supports an additional 240 thousand retirees, survivors and other family members.

Educational and medical sectors also contribute significantly to the local economy with major employers including Central Texas College, Mary Hardin Baylor University, Killeen, Belton and Temple ISD, the Metroplex Health System in Killeen, Scott & White Hospital & Clinic, and the Veteran’s Health Care System in Temple, Texas.

Overall, economic conditions within this AA continue to fare better than the national economy. Information from the Bureau of Labor and Statistics indicates that the AA unemployment rate was 7.5% at year-end 2012, which is lower than the seasonally adjusted national average of 7.8%, but higher than the state of Texas rate of 6.8%.



The Milken Institute has ranked the KTFH MSA in the top five growth areas in Texas for the past few years. In 2010, the MSA was ranked #1 for its overall business climate. In 2012, the KTFH MSA's growth ranking slipped to #63. Lower one-year job and salary growth trends as well as lower high tech growth contributed to the lower ranking. In a more recent 2013 study by the Policom Corporation, the economy of the KTFH MSA ranked eighth in the nation.

Since the last CRA evaluation in September 2009, retail sales in the MSA have declined from \$5.7 billion in 2008 to \$4.4 billion in 2011.

### **Community Contacts**

As part of this evaluation, the OCC examination staff spoke to a representative of a local CD organization that focuses on providing down payment and closing cost assistance to low-to-moderate-income (LMI) individuals. The organization also provides education regarding the home buying process. The contact noted that banks in the local area are generally doing a good job in providing credit to creditworthy individuals and that the local housing stock includes adequate options for LMI borrowers. The contact highlighted the need for better education of consumers and small business owners on the requirements for obtaining a loan and including a more detailed explanation of the overall loan process. Additionally, the contact suggested that banks could do a better job in educating the overall community on how to build and manage credit history. Other community contacts performed in the MSA in the past year mentioned a need for improved understanding by area banks regarding start-up business resources, including general financial and credit education. The contacts also stated that there is a need for greater flexibility and innovation to make small business loan products more attractive and accessible to borrowers. Regarding housing, we noted that there are numerous opportunities in the AA to participate in affordable housing solutions.

### **Description of the Houston - Sugar Land - Baytown Assessment Area**

The HSB MSA is the sixth largest metropolitan area in the country by population, and consists of ten counties. FNBTX has designated a portion of the MSA as its AA, including the following five counties: Brazoria, Fort Bend, Galveston, Harris, and Montgomery.

FNBTX has 56 in-store offices in the Houston AA and 3 traditional branch facilities in Conroe and Houston, and 62 ATMs. The June 30, 2012 FDIC Deposit Market Share data shows that FNBTX has \$177 million in deposits in this AA, which represents approximately 20% of the bank's deposits in Texas. However, this deposit share represents only 0.10% of the total deposit market share in the Houston AA.

There are 105 FDIC insured financial institutions in the AA with over 1,400 offices. Given the large number of banks in the AA, competition for deposit products, loans, and investments is strong. Some of the larger deposit competitors include: JPMorgan Chase Bank, NA; Wells Fargo Bank, NA; Wells Fargo Bank South Central, NA; Bank of America, NA; Compass Bank; and Amegy Bank, who hold a combined 76% percent of deposits in this market.

## Demographic Information

The 2010 Census reported AA population of 5.7 million with significant growth since 2000. From 2000 to 2010, the population grew 26%. The 2012 HUD-adjusted median family income for the AA was \$66,900. About 24% of families in the AA were low-income, earning a median annual income of \$33,450 or less. Approximately 17% of families were moderate-income, earning an annual income of \$53,520 or less. Approximately 13% of all households in the AA had incomes below the poverty level, and 1.4% received public assistance. The city of Houston comprises about 38% of the MSA population, while the combined populations of Harris and Montgomery Counties represent about 76.5% of the Houston MSA population. The total combined population of the five counties included in the bank's AA, represents 96.5% of the HSB MSA.

Houston is the county seat of Harris County and is the largest city in the Houston AA. Harris County is the largest county in Texas, representing 16% of the state's population and is the third largest county in the nation. Montgomery County includes the county seat of Conroe, The Woodlands, and other small communities north of Houston. FNBTX has two traditional branch locations in Conroe and one in Houston.

The table below further summarizes selected AA demographic information.

DEMOGRAPHIC INFORMATION FOR FULL SCOPE AREA: HOUSTON-SUGAR LAND-BAYTOWN ASSESSMENT AREA FOR CENSUS 2010						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	1,037	12.92	28.54	26.42	31.73	0.39
Population by Geography	5,738,055	9.78	25.99	28.32	35.61	0.29
Owner-Occupied Housing by Geography	1,193,825	4.30	20.94	29.60	45.17	0.00
Business by Geography	632,265	8.25	19.94	25.23	46.53	0.05
Farms by Geography	10,461	5.02	18.45	33.55	42.98	0.00
Family Distribution by Income Level	1,348,472	23.83	16.50	17.47	42.20	0.00
Distribution of LMI Families throughout AA Geographies	543,875	17.64	38.07	27.22	17.06	0.00
Median Family Income		64,179	Median Housing Value	156,918		
HUD Adjusted Median Family Income for 2012		66,900	Unemployment Rate -			
Households Below Poverty Level		13%	2012	6.8%		

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census and 2012 HUD updated MFI, Bureau of Labor and Statistics

## Employment and Economic Factors

Houston is the largest city in Texas and the fourth largest in the nation. In January 2012, the Brookings Institute named Houston as North America's fastest growing metro area. Houston is home to the Port of Houston, which ranks first in the United States in foreign waterborne tonnage and first in United States in terms of imports. Houston is also home to the largest medical center in the world, the Texas Medical Center. With 160 thousand visitors a day, the Center's economic impact exceeds \$14 billion annually, and it has approximately 93 thousand employees. Houston is second only to New York City in the number of Fortune 500

company headquarters, and more than five thousand energy-related firms are located in the city. The county's major employers include Memorial Hermann Healthcare System, Administaff, The University of Texas MD Anderson Cancer Center, ExxonMobil, Shell, Continental Airlines, and Wal-Mart Stores.

During the evaluation period, there were changes for some of the top employers in the Houston AA that have influenced the area's economics. Following the announcements of the end of the space shuttle program and cancellation of the Constellation program, a number of contract aerospace companies including Boeing and United Space Alliance announced layoffs. NASA had an economic impact on Texas of approximately \$6.5 billion, with \$2 billion stemming directly from the space shuttle program.

The Continental Airlines merger with United Airlines resulted in the elimination of approximately 500 jobs in the Houston area. Although some departments remained in Houston, the relocation of company headquarters to Chicago also resulted in lost Houston jobs. In addition, 2011 funding cuts to education budgets across Texas further strained local economies. Layoffs and furloughs were common in many school districts. For example, the Houston Independent School District's Board cut over 12,000 jobs, including schoolteachers and administrative staff. New policies required city workers to take six days of unpaid leave. In 2011, layoffs and furloughs occurred for as many as 23,000 employees.

### **Community Contacts**

In conjunction other recent CRA evaluations in the same market, the OCC contacted various types of leaders in community development organizations, community action groups, as well as local and governmental leaders within the HSB MSA, representing affordable housing, small business development, and community service entities.

The contacts mentioned several needs and opportunities for financial institutions within this market. Such needs include: additional low-cost bank accounts, more ATMs in the LMI areas, and greater financial institution participation in the "*Bank On*" Houston initiative. Community leaders also mentioned a need for small business loans, including working capital lines of credit. Financial institutions also have opportunities to support AA business development through collaboration and investment in new market tax credit developments.

Affordable housing-related entities mentioned a need for more affordable single-family homes and multi-family units to support the growing population. Contacts also mentioned the need for more financial participation in the sponsorship of Affordable Housing grant programs with the Federal Home Loan Bank of Dallas (FHLB). In Fort Bend County, opportunities were identified for the rehabilitation of owner-occupied residences of the elderly and disabled.

Community service organizations highlighted a need for greater financial institution participation and sponsorship of "Individual Development Account" (IDA) programs, which are savings programs designed to assist LMI individuals in the purchase or down payment for homes. There are several national and state IDA funding sources available, but most require matching funds. Financial institutions could help to provide the needed matching funds.

The City of Houston's 2012 Consolidated Plan and Annual Action Plan (Plan) identified several additional needs in the AA which include the following: acquisition, rehabilitation, and new construction of multifamily properties; down payment and closing cost assistance to increase LMI persons' access to homeownership; single family home repair to preserve existing housing stock; gap financing for supportive housing and medical care for the homeless; as well as jobs and job-related training for LMI Houstonians.

There are numerous opportunities for banks to become involved in CD services and organizations within this AA. There are several affordable housing, community service and economic development organizations that operate in the AA and help meet the needs within the community. There is also a Community Development Corporation (CDC) and several Community Revitalization Corporations (CRCs) that operate in the area.

### **Description of the Dallas - Plano - Irving Metropolitan Division**

The Dallas - Fort Worth - Arlington MSA is the fourth largest in the country by population and consists of 12 counties. FNBTX has designated a portion of the MSA as its AA, including the following 7 counties: Collin, Dallas, Denton, Ellis, Hunt, Kaufman, and Rockwall within the Dallas - Plano - Irving (DPI) metropolitan division (MD). The bank's branches in this AA are concentrated in Dallas and Denton counties (72%).

FNBTX has 54 in-store branches in the DPI AA and 62 ATMs. The primary loan product in this AA is consumer lending. FNBTX does not have a mortgage office or mortgage lenders in the DPI AA and they have no commercial loan officers within the in-store branches. Total loans in this AA represent approximately 3% of the bank's total loan portfolio.

The FDIC's June 30, 2012 Deposit Market Share Report showed that FNBTX has \$90.8 million in deposits in this AA, representing approximately 10% of the bank's total deposits in Texas. The bank's deposit market share in the DPI AA is minimal at 0.06%. Competition for deposit products and loans is very strong in this AA with 144 insured financial institutions and over 1,100 offices.

Some of the larger deposit competitors in this AA include: Bank of America; JPMorgan Chase Bank, NA; Wells Fargo Bank, NA; Compass Bank; and Texas Capital Bank, which hold a combined 70% percent of deposits in this market.

### **Demographic Information**

Dallas is the county seat and largest city in Dallas County, with portions of the city extending into neighboring counties. Dallas is the 9<sup>th</sup> largest city in the US, with a population in 2010 of 1.2 million and a nominal growth of 0.8% between 2000 and 2010.

The 2012 HUD-adjusted median family income for the Dallas MD AA was \$70,600. About 23% of the families in the AA were low-income, earning a median annual income of \$35,300 or less. Approximately 17% of the families were moderate-income, earning an annual income of \$56,480 or less. Approximately 12% of all households in the AA had incomes below the poverty level, and 1.3% received public assistance. A summary of selected AA demographic information is provided on the following table.

DEMOGRAPHIC INFORMATION FOR FULL SCOPE AREA: DALLAS – PLANO - IRVING ASSESSMENT AREA FOR CENSUS 2010						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	897	13.04	24.64	26.76	35.23	0.33
Population by Geography	4,230,520	11.51	24.52	28.32	35.64	0.00
Owner-Occupied Housing by Geography	898,449	5.36	19.23	30.05	45.35	0.00
Business by Geography	518,926	8.46	18.05	26.98	46.30	0.21
Farms by Geography	9,664	5.88	17.79	34.03	42.22	0.08
Family Distribution by Income Level	1,004,926	23.22	16.66	18.29	41.83	0.00
Distribution of LMI Families throughout AA Geographies	400,782	20.59	35.49	27.79	16.12	0.00
Median Family Income HUD Adjusted Median Family Income for 2012 Households Below Poverty Level		67,501 70,600 12%	Median Housing Value Unemployment Rate 2012		173,315 6.7%	

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 US Census, 2012 HUD updated MFI and Bureau of Labor and Statistics

## Employment and Economic Factors

A well-diversified business environment supports the economy of the Dallas – Fort Worth (DFW) MSA. Dallas is the key city driving the economy in the DFW Metroplex. Its economy is primarily based on banking, commerce, telecommunications, computer technology, energy, healthcare and medical research, transportation and logistics. The city is home to the third largest concentration of Fortune 500 companies in the nation. Dallas has developed a strong industrial and financial sector and is a major inland port due largely to the presence of the DFW International Airport, one of the largest and busiest airports in the world. In the latest rankings released on September 14, 2011, Dallas was rated as an Alpha-world city by the Globalization and World Cities Study Group & Network and is the only city in the South Central and Southwest regions to achieve that status. Dallas is also 14<sup>th</sup> in world rankings of Gross Domestic Product by the Organization for Economic Co-Operation and Development.

According to the Greater Dallas Chamber of Commerce, the DFW Metroplex holds about 43% of the state's high-tech workers. Further, 13 privately held companies with at least \$1 billion in annual revenues are headquartered in the area. Among the 19 Fortune 500 companies headquartered in the area are Advance PCS, Dean Foods, ExxonMobil, Kimberly-Clark, Neiman Marcus, Southwest Airlines and Texas Instruments. Real estate and tourism are other major industry sectors in the Dallas area. While the Dallas economy is well diversified, it is not completely insulated from a weakened national economy. The national economy, combined with a local downturn in the telecommunications and computer industries, has negatively affected housing, commercial real estate and unemployment.

Moody's Analytics data indicates that the MSA's major employers in Dallas include Wal-Mart, Carlson Restaurants, Bank of America, NA, Baylor Healthcare System, and Texas Health Resources. Top industries in the MSA include state and local government, restaurants, and employment services. According to a Forbes survey in February 2013, the Dallas area was ranked as "The Best City for Jobs."

The annual unemployment rate in the DPI MD was about 3.6% in 2000, based on Bureau of Labor Statistics data. That rate jumped up to 8.2% based on year-end 2010 annual information, and was 6.7% at year-end 2012, which is slightly lower than national averages and the year-end 2012 state unemployment rate of 6.8%.

## **Housing**

According to the 2010 Census, the median housing value for the bank's AA was \$173 thousand and the median monthly gross rent was \$883 in the DPI AA. Home-related costs exceeded 30% of income for approximately 16% of renters.

The MetroTex website, a real estate website providing data for the DFW Metroplex, reflected improvement in the local real estate market based on a comparison of February 2012 to February 2013. Single-family home sales have increased and median values are slightly higher. New listings are approximately the same and month's inventory is lower in 2013.

## **Community Contacts**

In conjunction with another CRA examination in the same market, the OCC contacted an affordable housing group in the Dallas - Fort Worth - Arlington MSA in order to help ascertain CD needs and opportunities in the bank's DFW AA. The contact indicated that there were several needs in the area relating to housing, highlighting needs for the financing of spec housing including townhomes, condominiums and some single-family housing given the growth in the DFW area. The contact also mentioned that builder lines of credit were more difficult to obtain due to the high foreclosure rates in the area, and borrowers were also facing more strict underwriting standards and tighter reins on mortgage financing, as well as reduced levels of special loan programs (mortgage) compared to the past. The contact also mentioned that opportunities tied to financing for transit-oriented development projects, financing for supportive housing to remove the homeless and increased flexibility in working through foreclosures and delinquencies would benefit the AA.

The Consolidated Plan of the City of Dallas outlines the city's needs, which include housing, homelessness, CD priorities, and improvement in economic development conditions of the city. One of the needs identified in the city's CD plan is stabilizing neighborhoods affected by home foreclosures through the Neighborhood Stabilization Program. The city experienced over 3,100 foreclosures in a period of eight months at the height of the foreclosure crisis and was averaging over 380 per month for a sustained period.

Financial institutions in this area have opportunities to work with government entities and CD organizations involved with the Neighborhood Stabilization Program to stabilize these neighborhoods.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN TEXAS**

FNBTX's overall performance in Texas is satisfactory based primarily upon our full scope reviews of the KTFH, Houston, and the Dallas AAs.

- During the evaluation period, FNBTX originated \$382 million in home mortgage loans and \$94 million in business loans in the full-scope Texas AAs, representing 80% of its mortgage and business loans. Additionally, consumer loan originations in the full-scope AAs totaled about \$23 million. Of the total \$21 million in purchased rehab student loans, \$13 million are within the bank's Texas AAs. Collectively, these loans represent approximately 56% of the bank's total deposits at year-end 2012.
- Overall, FNBTX's loans are reasonably distributed among borrowers of different incomes and in geographies of different income levels. The bank's consumer loan distribution by income in all AAs is excellent and is reflective of the bank's business model.
- The bank's CD loans, services and investments reflect adequate responsiveness in the full-scope AAs.
- Although the dollar volume of Smart Cash consumer loan programs was not significant, this loan product is responsive to the credit needs of the AAs. Through the years 2010 - 2012, FNBTX originated 1,787 Smart Cash loans in its Texas AAs totaling \$992 thousand.

## **LENDING TEST**

The bank's performance under the Lending Test in Texas is rated "Satisfactory."

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

The overall distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes, given the bank's product offerings and local economic conditions.

### **Performance in the Killeen-Temple-Fort Hood Assessment Area**

During this evaluation period, FNBTX originated 2,372 residential loans in this AA totaling \$356 million. Business loan originations numbered 313, approximating \$70 million. Consumer loan originations in the AA numbered 1,490 totaling \$13 million with \$236 thousand in Smart Cash loans. Purchased rehab student loans in this AA numbered 43 and totaled \$102 thousand. Combined, these loan originations total approximately \$437 million.

The penetration of loans to borrowers of different incomes and to businesses of different sizes in the KTFH AA is reasonable. Our analysis of loan distribution by borrower income is provided below.

### **Residential Loans**

Overall, the bank's distribution of residential loans reflects a reasonable penetration among borrowers of different income levels.

Our review of residential lending focused on home purchase loans, which represent 87% of the bank's total residential loan originations in this AA. We also reviewed home loan refinancing, placing more weight on home purchase loans due to FNBTX's leading market share in this AA. Home improvement loans are not a primary product for this AA and there was an insufficient volume of home improvement loans to perform a meaningful analysis.

## Home Purchase Loans

The bank's distribution of home purchase loans reflects a reasonable penetration among borrowers of different income levels. As depicted in the charts below, the percentage of home purchase loans to low-income borrowers is significantly lower than comparable AA demographic information in both evaluation periods. The volume of home purchase loans to moderate-income borrowers, however, slightly exceeds AA demographics in both evaluation periods. More weight was given to the bank's performance related to moderate-income borrowers due to the difficulties many low-income borrowers have in qualifying for mortgage loans. There were a number of factors affecting the origination of loans to low-income borrowers during the evaluation period, including a slight increase in poverty rates from 11% to 12%, higher unemployment rates, and increasing home values from \$72,485 to \$104,729. More restrictive underwriting standards that occurred during the economic downturn and increased home values during the evaluation period have made it more challenging for low-income borrowers to qualify for mortgages. However, the bank's approval rate on applications from low-income borrowers is good at 84%.

## Refinancing

FNBTX's distribution of home refinance loans reflects a poor penetration among borrowers of different income levels. The loan penetration among both low- and moderate-income borrowers is substantially below AA demographics. We placed less weight on this loan product as these loans represented only 12% of the bank's residential loans in this AA.

The following tables reflect the distribution of residential loan products among borrowers of different income levels as compared to the percentage of families in each income category.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	16.89	2.23	20.08	24.05	23.86	35.75	39.17	35.46
Home Improvement	16.89	0.00	20.08	0.00	23.86	0.00	39.17	100.00
Refinance	16.89	6.45	20.08	9.68	23.86	16.13	39.17	67.74

Income information was reported as N/A on 2.51% of home purchase loans.

Source: HMDA 2010-2011; 2000 U.S. Census data



Table 2 Borrower Distribution of Residential Real Estate Loans in KTFH Assessment Area - 2012								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	19.40	3.96	19.10	20.38	21.64	35.19	39.85	38.12
Home Improvement	19.40	0.00	19.10	0.00	21.64	0.00	39.85	100.00
Refinance	19.40	2.55	19.10	5.10	21.64	4.46	39.85	12.74

Income information was reported as N/A on 2.35% of the home purchase loans and 75.15% of the home loan refinance.  
Source: HMDA 2012, 2010 U.S. Census data.

### Business Loans

The distribution of business loans reflects a reasonable penetration among small businesses.

In 2010-2011, FNBTX originated 67% of the sampled business loans to small businesses with gross revenues of \$1 million or less. These loans represented 58% of the total dollar volume. The number of small business loan originations is consistent with AA demographics.

In 2012, FNBTX originated 57% of its loans to small businesses, with 61% of the dollar volume. This level of performance is slightly below AA demographics as reflected in the following table.

Table 2A Borrower Distribution of Loans to Businesses in the KTFH Assessment Area – 2010 - 2011				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.77%	1.55%	31.68%	100%
% of Bank Loans in AA by #	66.67%	23.33%	10.00%	100%
% of Bank Loans in AA by \$	58.24%	40.66%	1.11%	100%

Source: Sample of 30 Loans 2010-2011; Dunn and Bradstreet data (2011)

Table 2A Borrower Distribution of Loans to Businesses in the KTFH Assessment Area - 2012				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.85%	2.12%	26.03%	100%
% of Bank Loans in AA by #	56.67%	30.00%	13.33%	100%
% of Bank Loans in AA by \$	61.41%	6.16%	32.43%	100%

Source: Sample of 30 Loans in 2012; Dunn and Bradstreet data (2012)

When evaluating the bank’s loans to larger businesses, we found that four of the loans were to borrowers in the residential construction business, providing middle- and moderate-income homes to area residents.

The small business loan distribution analysis did not carry as much weight as the consumer and residential analysis due to the large percentage of businesses with unknown or unavailable revenues. The tables shown above reflect the distribution of loans among businesses of different sizes within the AA.

**Consumer Loans**

Overall, the distribution of consumer loans to borrowers of different income levels reflects a reasonable penetration among borrowers of different income levels. We gave more weight to loan penetration among low-income borrowers in this AA, which is excellent. Loan penetration among moderate-income borrowers is slightly below AA demographics.

During 2010 - 2011, FNBTX made 47% of its consumer loans to low-income borrowers, which significantly exceeds AA demographics. The bank’s distribution of loans to moderate-income borrowers at 17% is just slightly below AA demographics.

During 2012, the bank’s loan penetration among LMI borrowers was similar, with 50% to low-income borrowers, and 17% to moderate-income borrowers. The bank’s penetration to low-income borrowers significantly exceeded AA demographics, while the penetration among moderate-income borrowers was slightly below AA demographics as reflected in the following table.

Table 2B Borrower Distribution of Consumer Loans in KTFH-Assessment Area - 2010 - 2011								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	19.23	46.67	18.41	16.67	22.41	23.33	39.95	10.00

Source: Sample of 30 loans in 2010-2011, 2000 U.S. Census data. Income information was not available on 3.33% of consumer loans.

Table 2B Borrower Distribution of Consumer Loans in KTFH-Assessment Area - 2012								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	21.20	50.00	17.69	16.67	20.41	23.33	40.71	10.00

Source: Sample of 30 loans in 2012, 2010 U.S. Census data.

**Performance in the Houston – Sugar Land - Baytown Assessment Area**

During the evaluation period, FNBTX originated 116 residential loans in the HSB AA totaling \$16 million. Business loan originations totaled 101, approximating \$24 million. Consumer loan originations in this AA numbered 1,583 and totaling \$8 million with \$158 thousand in Smart Cash loans. Purchased rehab student loans in this AA numbered 708 and totaled approximately \$3 million. Combined, these loan originations total approximately \$51 million.

The penetration of loans to borrowers of different incomes and to businesses of different sizes in the Houston AA is reasonable. Our analysis of loan distribution by borrower income and geography is provided below.

**Residential Loans**

Overall, the bank's residential lending performance reflects a reasonable penetration among borrowers of all income levels.

Our review of residential loans in this AA focused primarily on home purchase loans. FNBTX originated 89 home purchase loans in this AA totaling \$12.5 million and 27 refinances totaling \$3.7 million. There were only 8 home refinance loans during 2010-2011 and 19 in 2012, which is not enough to perform a meaningful analysis. Home improvement lending is not a primary product in this AA and the bank had no home improvement loans during the evaluation period.

**Home Purchase Loans**

The bank's distribution of home purchase loans reflects a reasonable penetration among borrowers of different income levels.

FNBTX's home purchase loan penetration among low-income borrowers in both evaluation periods was significantly below AA demographics; however, as reflected in the tables below, home purchase loan penetration among moderate-income borrowers slightly exceeded AA demographics. FNBTX made 18% of home purchase loans to moderate-income borrowers in 2010 - 2011 and 17% in 2012.

We gave more weight to the bank's performance among moderate-income borrowers due to the difficulties many low-income borrowers have in qualifying for mortgage loans. More restrictive underwriting standards that occurred during the economic downturn and increased home values during the evaluation period have made it more challenging for low-income borrowers to qualify for mortgages. Median home values in this AA have increased from \$99 thousand in 2000 to \$157 thousand in 2010.

**Home Loan Refinances**

Although FNBTX did not have enough home refinance loans to perform a meaningful analysis, we did note that the bank originated three loans to moderate-income borrowers totaling \$237 thousand and one loan to a low-income borrower totaling \$86 thousand.

The following tables reflect the distribution of residential loan products among borrowers of different income levels as compared to the percentage of families in each income category.

Table 2 Borrower Distribution of Residential Real Estate Loans in the HSB Assessment Area - 2010 - 2011								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	22.47	4.65	17.28	18.60	18.81	9.30	41.44	44.19
Home Improvement	22.47	0.00	17.28	0.00	18.81	100.00	41.44	0.00
Refinance	22.47	0.00	17.28	25.00	18.81	25.00	41.44	37.50

Income information was reported as N/A on 23.26 % of the home purchase loans and 12.5% of home loan refinances.  
Source: HMDA 2010 - 2011, 2000 U.S. Census data

Table 2 Borrower Distribution of Residential Real Estate Loans in the HSB Assessment Area - 2012								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	23.83	4.35	16.50	17.39	17.47	21.74	42.20	43.48
Home Improvement	23.83	0.00	16.50	0.00	17.47	0.00	42.20	0.00
Refinance	23.83	5.26	16.50	5.26	17.47	21.05	42.20	42.11

Income information was reported as N/A on 13.04 % of the home purchase loans and 26.3 % of home loan refinances.  
Source: HMDA 2012, 2010 U.S. Census data

### Business Loans

Overall, the distribution of FNBTX’s business loans in the HSB AA reflects an excellent penetration among small businesses, which are defined as businesses with gross annual revenues of \$1 million dollars or less. During both evaluation periods 2010 - 2011 and 2012, the bank’s small business loan penetration exceeded AA demographics.

In 2010 - 2011, the bank originated 73% of the sampled business loans to small businesses, with 95% of the dollar volume. In 2012, 60% of the sampled loans were to small businesses with 73% of the dollar volume.

The small business loan distribution analysis did not carry as much weight as the residential and consumer lending analysis due to the large percentage of businesses with unknown or unavailable revenues. The following tables reflect the distribution of loans among businesses of different sizes within the AA.

Table 2A Borrower Distribution of Loans to Businesses in the HSB Assessment Area- 2010-2011				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67.34%	2.49%	30.18	100%
% of Bank Loans in AA by #	73.33%	23.34%	3.33%	100%
% of Bank Loans in AA by \$	95.26%	4.61%	.13%	100%

Source: Sample of 30 Loans in 2010-2011; Dunn and Bradstreet data (2011).

Table 2A Borrower Distribution of Loans to Businesses in the HSB Assessment Area- 2012				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.71%	3.40%	24.89%	100%
% of Bank Loans in AA by #	60.00%	40.00%	0.00%	100%
% of Bank Loans in AA by \$	73.45%	26.558%	0.00%	100%

Source: Sample of 30 Loans in 2012; Dunn and Bradstreet data (2012).

### Consumer Loans

The distribution of consumer loans in the HSB AA reflects an excellent penetration among borrowers of different income levels. During the evaluation period, FNBTX originated \$8 million in secured and unsecured consumer loans in this AA. Smart Cash loans numbered 294 and totaled \$157 thousand.

During 2010-2011, the bank’s penetration for both LMI borrowers was 33%. The bank’s performance slightly exceeded AA demographics for low-income borrowers and significantly exceeded demographics for moderate-income borrowers.

In 2012, 70% of the sampled consumer loans in this AA were to low-income borrowers, which is well above the demographic comparator of 24%. Loans to moderate-income borrowers represented only 7% of the bank’s loans, which is significantly below AA demographics. Overall, when considering performance over both time periods, FNBTX’s performance was considered excellent and consistent with the bank’s business model and loan type.

The following tables show the distribution of consumer loans among borrowers of different income levels throughout the AA.

Table 2B Borrower Distribution of Consumer Loans in the HSB Assessment Area – 2010 - 2011								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	22.86	33.33	16.88	33.33	18.16	20.00	42.10	13.33

Source: Sample of 30 loans in 2010-2011; 2000 U.S. Census data

Table 2B Borrower Distribution of Consumer Loans in the HSB Assessment Area - 2012								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	24.05	70.00	16.37	6.67	16.89	13.33	6.67	10.00

Source: Sample of 30 loans in 2012; 2010 U.S. Census data.

**Performance in the Dallas – Plano - Irving Assessment Area**

Overall, the penetration of loans to borrowers of different incomes in the DPI AA is reasonable. The penetration of consumer loans among LMI borrowers is excellent, but there were not enough residential loans in this AA to perform a meaningful analysis. Business lending is not a primary product in the DPI AA.

During the evaluation period, FNBTX originated 18 residential loans in this AA totaling \$10 million. Consumer loan originations numbered 750 and totaled \$2 million, including 222 Smart Cash loans at \$116 thousand. Purchased rehab student loans in the DPI AA totaled 494 at approximately \$2 million. Combined, these loan originations totaled \$14 million. Our analysis of loan distribution by borrower income and geography is provided below.

**Residential Loans**

There were 10 home purchase loans during 2010 - 2011, and 6 in 2012. This volume of loans is too small to perform a meaningful analysis, but in 2010 – 2011, we did note that FNBTX made 4 loans totaling \$363 thousand to moderate-income borrowers in the AA. In addition, in 2012 the bank made one loan to a low-income borrower totaling \$76 thousand and another loan to a moderate-income borrower totaling \$145 thousand. There were no home loan refinances and only two home improvement loans in the AA.

**Consumer Loans**

The distribution of secured and unsecured consumer loans to borrowers in the DPI AA reflects an excellent penetration among LMI borrowers. As reflected in the table below, FNBTX originated the majority of its consumer loans to individuals in LMI households. For both the 2010 - 11 and 2012 evaluation periods, the bank’s penetration of loans to LMI borrowers exceeded the demographic comparator. This level of performance is consistent with FNBTX’s business model and loan type.

Table 2B Borrower Distribution of Consumer Loans in the DPI Assessment Area - 2010-2011								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	21.33	60.00	17.70	20.00	19.19	16.67	41.78	3.33

Source: 2010-2011 Sample of 30 loans, 2000 U.S. Census data.

Table 2B Borrower Distribution of Consumer Loans in the DPI Assessment Area - 2012								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	23.33	63.33	16.77	26.67	17.62	6.67	42.27	3.33

Source: 2012 Sample of 30 loans, 2010 U.S. Census data.

### **Conclusion for Limited-Scope Reviews**

Overall performance in the limited-scope AAs is weaker than the full-scope AAs due primarily to limited lending activity. Deposit volumes in the limited-scope AAs are also significantly lower than the full-scope AAs.

The residential real estate loan volume is low in the limited-scope AAs, with the exception of Austin and El Paso where the bank has higher volumes of home purchase loans. Residential lending volume in El Paso was strong where FNBTX has established a mortgage loan office.

The penetration of home purchase loans to LMI borrowers in Austin and El Paso is reasonable and consistent with performance in the full-scope AAs. In the other AAs, the bank had no residential loans or so few residential loans that analysis was not meaningful.

Small secured and unsecured consumer loans are the primary loan products in most of the other limited-scope AAs. Our analysis included a review of all consumer loans in the 24 Texas limited-scope AAs. The consumer loan volume, however, was too small to perform a meaningful analysis in 6 of the 24 (25%) limited scope AAs including Amarillo, Laredo, Longview, Sherman, Texarkana, and Victoria. The offices in the Laredo and Victoria MSAs, however, have only been open for just over a year.

There were 3 of the 24 AAs where loan volume was too small to perform an analysis in one of the two applicable time periods. In the Central Texas and Midland AAs, loan volume was too small for analysis in 2010 – 2011, and in the Odessa MSA, loan volume was too small for analysis in 2012.

In the limited-scope AAs, when there was a sufficient volume of loans to perform an analysis, we found the distribution of consumer loans to LMI borrowers to be reasonable, either meeting or exceeding AA demographics for LMI borrowers.

### **GEOGRAPHIC DISTRIBUTION OF LOANS**

Geographic distribution of loans reflects a reasonable dispersion throughout FNBTX's AAs.

#### **Performance in the Killeen - Temple - Fort Hood Assessment Area**

Overall, the bank's geographic distribution of loans in this AA reflects a reasonable dispersion throughout census tracts (CTs) of different income levels. The dispersion of real estate loans is poor, but the dispersion of business loans is reasonable and consumer loan dispersion in all CTs is excellent.

#### **Residential Loans**

The geographic dispersion of residential loans in the KTFH AA is poor.

The volume of home purchase loans and home loan refinancing in low-income CTs is lower than the comparable demographic data; but we placed little weight on this distribution, as there was only one low-income CT in the AA for most of the evaluation period. This one CT is located near the downtown area of Killeen and only .18% of AA owner-occupied housing units were located in this AA.

The 2010 Census data designated two additional low-income CTs in the AA and these CTs are located near Belton and Temple, which is approximately 15 - 20 miles from the bank's mortgage office locations in the KTFH AA. Rental units in 2 of the 3 low-income CTs represent over 75% of housing units, which limits the bank's opportunities for home loans.

Home purchase loans and home loan refinancing in moderate-income CTs were also below comparable AA demographics during 2010 - 2011 and in 2012. Lending opportunities are available in the 68% of the 19 moderate-income CTs that are not located on the Fort Hood military base. High percentages of rental units and the proximity of the bank's mortgage offices to some of the moderate-income CTs present challenges for FNBTX. Six of the moderate-income CTs are located in Temple, Belton and Gatesville (32%), where the bank has fewer branches and no mortgage offices. The remaining moderate-income CTs are located within the city of Killeen. Residential lending opportunities are limited within these areas with over 50% rental units.

The following tables detail the bank's performance as compared to the percentage of owner-occupied housing units in each CT.

Table 3 Geographic Distribution of Residential Real Estate Loans in the KTFH Assessment Area – 2010 - 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans
Home Purchase	0.18	0.07	8.08	1.22	59.46	62.03	32.28	36.68
Home Improvement	0.18	0.00	8.08	0.00	59.46	50.00	32.28	50.00
Refinance	0.18	0.00	8.08	0.76	59.46	50.00	32.28	49.24

Source: 2010-2011 HMDA loan data, 2000 U.S. Census data.

Table 3 Geographic Distribution of Residential Real Estate Loans in the KTFH Assessment Area - 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans
Home Purchase	1.29	0.29	8.77	4.99	61.65	63.78	28.30	30.94
Home Improvement	1.29	0.00	8.77	0.00	61.65	75.00	28.30	25.00
Refinance	1.29	0.00	8.77	3.18	61.65	54.14	28.30	42.68

Source: 2012 HMDA loan data, 2010 U.S. Census data.

## Business Loans

The geographic distribution of loans to businesses reflects a reasonable dispersion throughout the AA CTs. In 2010 - 2011, FNBTX did not make any commercial loans in the one low-income CT in downtown Killeen. In 2012, the bank's dispersion of loans in low-income CTs improved to 3%, slightly exceeding AA demographics.



The dispersion of business loans in moderate-income areas is excellent. In 2010 - 2011, the bank’s loan dispersion in moderate-income areas was 37%, which is significantly higher than AA demographics. The bank’s performance in 2012 was similar with 30% of its loans in moderate-income CTs. The following table further details the bank’s performance as compared to the percentage of businesses in each CT income level.

Table 3A Geographic Distribution of Loans to Businesses in the KTFH Assessment Area – 2010 - 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Nonfarm Businesses	% of # of Loans	% of Nonfarm Businesses	% of # of Loans	% of Nonfarm Businesses	% of # of Loans	% of Nonfarm Businesses	% of # of Loans
Businesses	2.83	0.00	13.28	36.67	52.52	43.33	31.38	20.00

Source: 2010-2011 Loan sample; Dunn and Bradstreet data, 2000 Census Data.

Table 3A Geographic Distribution of Loans to Businesses in the KTFH Assessment Area - 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Nonfarm Businesses	% of # of Loans	% of Nonfarm Businesses	% of # of Loans	% of Nonfarm Businesses	% of # of Loans	% of Nonfarm Businesses	% of # of Loans
Businesses	1.56	3.33	18.26	30.00	53.32	43.33	25.77	23.33

Source: 2012 Loan sample; Dunn and Bradstreet data, 2010 census Data

### Consumer Loans

The geographic distribution of consumer loans reflects an excellent dispersion throughout CTs of different income levels. During both evaluation periods 2010 – 2011 and in 2012, the bank’s loan dispersion in LMI areas exceeded AA demographics.

As reflected in the tables below, FNBTX made 13% of its loans in 2010 - 2011 in low-income CTs and 3% in 2012. FNBTX made 27% of its consumer loans in moderate-income areas in 2010-2011 and 37% in 2012, which significantly exceeds AA demographics.

Table 3B Geographic Distribution of Consumer Loans in the KTFH Assessment Area – 2010 – 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	1.06	13.33	16.20	26.67	58.22	40.00	24.52	20.00

Source: 2010-2011 Loan sample; 2000 U.S. Census data.

Table 3B Geographic Distribution of Consumer Loans in the KTFH Assessment Area - 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	2.24	3.33	17.91	36.67	58.58	50.00	21.27	10.00

Source: 2012 Bank Loan Sample; 2010 U.S. Census data.

During the evaluation period, FNBTX also purchased 43 student loans in this AA totaling \$102 thousand. The geographic distribution of these loans was similar to the consumer loan distribution.

### **Performance in the Houston – Sugar Land - Baytown Assessment Area**

Overall, the bank's geographic distribution of loans in this AA reflects reasonable dispersion throughout CTs of different income levels. Residential loan dispersion was reasonable; commercial and consumer loan dispersions are excellent.

### **Residential Loans**

The geographic distribution of home loans in the Houston AA reflects a reasonable dispersion throughout CTs of different income levels.

FNBTX made just over 2% of home purchase loans in low-income CTs during this evaluation period, which is slightly below the percentage of owner-occupied housing units in low-income areas.

In the years 2010 - 2011, FNBTX made approximately 19% of its home purchase loans in moderate-income tracts, which is slightly below AA demographics. In 2012, this percentage increased significantly to 33% and loan dispersion in moderate-income tracts exceeded AA demographic data.

The volume of home refinance loans was too small for a meaningful analysis; however, we did note there were no home refinance loans in low-income areas during both evaluation periods (2010 - 2011 and 2012). The bank did originate 2 loans in moderate-income CTs in 2010 - 2011 totaling \$177 thousand. These loans represented 25% of the bank's home refinance loans during this time period. In addition, in 2012, the bank originated 3 home refinance loans in moderate-income CTs totaling \$267 thousand. These loans represented 16% of the 2012 home refinance loans in the Houston AA.

FNBTX made only one home improvement loan in this area during the evaluation period. Since home improvement lending is not a primary bank product and because of the limited volume, no further analysis was performed.

The following tables detail the bank's performance compared to the percentage of owner-occupied housing units in each CT.

Table 3 Geographic Distribution of Residential Real Estate Loans in the HSB Assessment Area – 2010 - 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans
Home Purchase	2.97	2.33	22.63	18.60	31.83	27.91	42.57	51.16
Home Improvement	2.97	0.00	22.63	0.00	31.83	100.00	42.57	0.00
Refinance	2.97	0.00	22.63	25.00	31.83	25.00	42.57	50.00

Source: 2010-2011 HMDA Data, 2000 U.S. Census data.

Table 3 Geographic Distribution of Residential Real Estate Loans in the HSB Assessment Area - 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans
Home Purchase	4.30	2.17	20.94	32.61	29.60	15.22	45.17	50.00
Home Improvement	4.30	0.00	20.94	0.00	29.60	0.00	45.17	0.00
Refinance	4.30	0.00	20.94	15.79	29.60	26.32	45.17	57.89

Source: 2012 HMDA Data, 2010 U.S. Census data.

## Business Loans

FNBTX's geographic distribution of loans to businesses in the HSB AA reflects an excellent dispersion throughout the AA CTs.

The bank's performance in 2010 - 2011 was excellent with a 10% loan dispersion in low-income CTs, which significantly exceeds AA demographics. In 2012, our sample reflected 17% of the bank's business loans in low-income CTs, which is significantly more than comparable AA demographics.

Additionally, the bank's performance in moderate-income CTs was excellent. In 2010 - 2011, FNBTX originated 37% of its business loans in moderate-income CTs, slightly exceeding AA demographics. In 2012, our sample reflected 40% of the bank's business loans in moderate-income CTs, which also significantly exceeds comparable AA demographics.

The following tables detail the bank's performance as compared to the percentage of businesses in each CT.

Table 3A Geographic Distribution of Loans to Businesses in the HSB Assessment Area – 2010 - 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Businesses	3.72	10.00	20.38	36.67	27.59	20.00	47.75	33.33

Source: Sample of 30 Loans 2010-2011, Dunn and Bradstreet, 2000 census Data

Table 3A Geographic Distribution of Loans to Businesses in the HSB Assessment Area - 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of Farms/ Businesses	% of # of Loans	% of Farms/ Businesses	% of # of Loans	% of Farms/ Businesses	% of # of Loans	% of Farms/ Businesses	% of # of Loans
Businesses	8.25	16.67	19.94	40.00	25.23	10.00	46.53	33.33

Source: Sample of 30 Loans in 2012; Dunn and Bradstreet, 2010 Census

### Consumer Loans

FNBTX’s geographic distribution of consumer loans reflects an excellent dispersion throughout the AA CTs.

During 2010 – 2011, our sample reflected no loans in low-income CTs but in 2012, the bank’s performance improved with 17% of consumer loans in low-income CTs. This level of performance exceeds AA demographics.

FNBTX made 37% of its loans in moderate-income CTs during 2010 - 2011, which is significantly above AA demographics. In 2012, FNBTX made 40% of its loans in moderate-income CTs, again significantly exceeding AA demographics.

The bank’s performance is reflected in the tables below.

Table 3B Geographic Distribution of Consumer Loans in the HSB Assessment Area – 2010 - 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	6.12	0.00	28.52	36.67	31.46	33.33	33.89	30.00

Source: 2010-2011 Loan sample; 2000 U.S. Census data.  
Census data reflects .08% of AA Households as N/A.

Table 3B Geographic Distribution of Consumer Loans in the HSB Assessment Area - 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	10.00	16.67	25.15	40.00	27.99	23.33	36.86	20.00

Source: 2012 Loan sample; 2010 U.S. Census data.

**Performance in the Dallas – Irving – Plano (DPI) Assessment Area**

Overall, the bank’s geographic distribution of loans in this AA reflects a reasonable dispersion throughout AA CTs. The bank’s consumer loan dispersion among LMI borrowers is excellent; however, the limited volume of residential loans in the DPI AA contributed to the overall “reasonable” conclusion. Business lending is not a primary product in the DPI AA.

**Residential Loans**

FNBTX originated only 16 home purchase loans in this AA, which was not enough to perform a meaningful analysis. We did note that in 2010 - 2011, FNBTX originated two loans in moderate-income CTs totaling \$155 thousand and in 2012, FNBTX originated one loan in a moderate-income CT totaling \$76 thousand. During the evaluation period, FNBTX made no residential loans in low-income CTs. The limited volume of residential in this AA may be attributed in part to the lack of mortgage loan officers within the in-store branch locations. Also, competition for mortgage loans in this AA is very strong.

Aggregate HMDA data reflects significant competition in this AA from other institutions and mortgage lenders. In the 2011 aggregate report, there were over 400 institutions with offices in this MSA. FNBTX does not have a mortgage office in this AA and when considering the bank’s limited market share presence in this AA with .06% of market deposits, the bank’s lack of performance in this area is not unexpected. FNBTX had no home refinance loans or home improvement loans in this AA during the evaluation period.

**Consumer Loans**

FNBTX’s geographic distribution of consumer loans reflects an excellent dispersion throughout the AA CTs. During 2010 – 2011, FNBTX made 13% of its consumer loans to borrowers in low-income CTs and 40% to borrowers in moderate-income CTs. This level of performance significantly exceeds AA demographics. The bank’s performance is shown in the tables below.

TABLE 3B Geographic Distribution of Consumer Loans in the DPI Assessment Area – 2010-2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	6.89	13.33	25.26	40.00	35.89	36.67	31.96	10.00

Source: 2010-2011 Sample of 30 loans, 2010 U.S. Census data.

TABLE 3B Geographic Distribution of Consumer Loans in the DPI Assessment Area - 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	11.51	26.67	23.16	33.33	29.47	33.33	35.86	6.67

Source: 2012 Sample 30 loans, 2012; 2010 U.S. Census data.

During the evaluation period, FNBTX purchased 494 student loans in this AA totaling \$2.2 million. The geographic distribution of these loans was reasonable and similar to the bank's consumer loan dispersion.

### **Conclusion for Limited-Scope Assessment Area(s)**

Overall, the geographic distribution of the bank's consumer loans in limited-scope AAs was consistent with performance in full-scope AAs; however, the bank's performance in the limited-scope AAs is weaker than the full-scope areas due to the lack of lending other than consumer loans in most of the limited-scope AAs.

Our analysis of the geographic distribution of the bank's loans in the limited-scope AAs focused primarily on consumer loans, except in the Austin and El Paso AAs, where the bank had more residential loans. In many of the limited-scope AAs, the bank had no residential loans or so few loans that analysis was not meaningful. The residential loan distribution in Austin, El Paso, and Fort Worth was reasonable and consistent with the full-scope AAs.

### **Responses to Complaints**

FNBTX has not received any CRA-related complaints during the evaluation period in the State of Texas.

## **COMMUNITY DEVELOPMENT TEST**

FNBTX's performance under the CD Test in Texas is rated "Satisfactory."

We placed more weight on CD activities in the full-scope AAs where the majority of the bank's loans, deposits and branch offices are located. We placed the most weight on the KTFH AA, where the bank's head office is located.

We placed nominal weight on the full-scope reviews in Phoenix, AZ and Las Cruces, NM, due to the bank's limited market share and length of time since opening.

The bank's CD performance in the limited-scope AAs is weaker than in the full-scope AAs. The limited-scope areas contributed minimal weight to the overall conclusion for Texas, given the bank's limited presence in those markets.

### **Number and Amount of Community Development Loans**

FNBTX's CD lending performance in Texas is satisfactory based upon performance in the full-scope AAs.

### **Full-Scope Assessment Areas**

The bank originated nine qualifying loans totaling \$8 million in the full-scope AAs in Texas. CD loans were primarily used for the provision of affordable housing to residents in the AA.

### **Performance in the Killeen-Temple-Fort Hood Assessment Area**

CD lending in the KTFH AA focused on housing for LMI individuals and families. FNBTX originated five qualifying loans totaling \$1.5 million, of which four loans benefitted entities that provide housing targeted to LMI individuals and families.

Two of the CD loans totaling \$270 thousand were used to renovate an affordable housing complex with 68 units providing affordable housing to LMI individuals and families in Holland, Texas. Two additional loans totaling \$1 million funded a new 44-unit apartment complex in Killeen Texas with over 58% LMI residents.

Another loan totaling \$250 thousand was used to purchase an investment in a CRA fund providing financing for an affordable housing apartment complex in Belton, Texas. Additionally, approximately 1% of the earnings from the CRA fund benefit the Senior Housing Crimes Prevention Foundation, which provides safe environments for seniors/veterans in nursing homes. FNBTX's loan proceeds and CRA fund earnings support crime prevention programs in the Texas Veteran's Home in Temple, Texas. Over 90% of the Veteran's home residents are LMI individuals.

### **Performance in Houston-Sugarland-Baytown AA**

FNBTX originated two loans totaling \$648 thousand to an entity in the HSB AA that provides housing primarily for LMI individuals and families. The bank's loans were used to purchase and renovate a 20-unit complex for LMI individuals and families in a moderate-income CT.

### **Performance in Dallas-Plano-Irving AA**

FNBTX originated two loans totaling \$5.9 million to entities that provide housing primarily for LMI individuals and families. These loans provided 305 housing units for LMI individuals and families.

### **Limited-Scope Assessment Areas**

The bank's performance in limited scope AAs is weaker than in the full-scope areas. CD lending in the limited-scope AAs has been limited to only one loan.

FNBTX originated a qualifying CD loan in the Austin-Round Rock-San Marcos AA totaling \$2.4 million to an entity that provides housing primarily for LMI individuals and families. The bank's loan provided 104 LMI housing units in a moderate-income CT. The bank had no other CD loans in the limited-scope AAs.

### **Number and Amount of Qualified Investments**

Overall, the bank's level of investment and qualified donations in the Texas AAs is satisfactory. Qualified investments in Texas AAs totaled \$7.6 million with an additional \$60 thousand in donations.

During the evaluation period, FNBTX purchased new CRA-qualified investments from Community Capital Management totaling \$1.3 million. This entire amount was allocated to the full-scope AAs in Texas. These investments are mortgage-backed securities (MBS) that are comprised of individual loans funding housing projects for LMI individuals and families in the bank's Texas AAs.

FNBTX has an additional \$6.3 million in remaining book value of similar prior period investments from Community Capital Management. These investments also consist of MBS, collateralized by residences and housing projects in the bank's Texas AAs.

**Full-Scope Assessment Areas**

CD investments within the bank's full-scope AAs are satisfactory; we considered both the volume and community impact of the bank's investments. The bank focused primarily on affordable housing with their investments.

**Performance in Killeen-Temple-Fort Hood Assessment Area**

CRA-qualified investments in the KTFH AA include the Community Capital Management investments totaling \$750 thousand with prior period investments of \$843 thousand. FNBTX also made 33 donations totaling approximately \$27 thousand. These donations benefitted various organizations in the AA that provide services primarily to LMI individuals including the Armed Services YMCA, Communities in Schools, Killeen Food Care Center, Killeen Independent School District Educational Foundation, the Salvation Army, and scholarship funds for primarily LMI students at University of Mary Hardin-Baylor.

In addition, FNBTX contributed over \$25 thousand in support of the annual "Lemonade Day" program, which provides financial education and training to area youth. The program is a financial education experience devoted to teaching youth the basics of financial responsibility with a focus on entrepreneurship and savings accounts. FNBTX targets their educational efforts in schools with a high percentage of LMI students.

**Performance in Houston-Sugarland-Baytown Assessment Area**

CRA-qualified investments in the HSB AA include four municipal bonds totaling \$5.4 million providing new schools, classrooms, technology improvements, and educational programs in areas benefiting primarily LMI individuals. FNBTX also has two prior period Community Capital Management investments totaling \$1.8 million. In addition to the CRA-Qualified investments, FNBTX contributed \$1.5 thousand to the Montgomery County Community Foundation, which distributes grants to non-profit agencies providing essential services within the county and educational scholarships to local students, with a focus on LMI individuals.

**Performance in Dallas – Plano - Irving Assessment Area**

CRA-qualified investments in the DPI AA include three municipal bonds totaling \$2.3 million providing new schools, classrooms, and renovations in areas benefiting primarily LMI individuals. FNBTX also has Community Capital Management investments totaling \$250 thousand and \$2.8 million in prior period investments. FNBTX made two donations totaling \$2 thousand, benefitting the "Bank On" Dallas initiative, which is a partnership of private, public and community organizations working to provide information and resources to unbanked and under-banked individuals. Financial institutions and other organizations work in coordination to improve access to and participation in quality financial education and coaching programs. The collaborative initiative also serves as a hub to connect residents, financial institutions, nonprofit service providers and other community organizations.

**Limited-Scope Assessment Areas**

FNBTX's CD investment performance within the limited scope Texas AAs is weaker than performance in the full scope AAs. Investments in the limited-scope AAs are comprised of municipal bonds totaling \$2.7 million benefiting Laredo, El Paso, and Palestine, a distressed community. FNBTX also has prior period CRA-qualified MBS totaling \$908 thousand benefiting the El Paso AA.



Qualifying monetary donations in the limited scope AAs totaled \$4 thousand. Approximately 50% of these contributions supported the Money Smart Week, which is a financial education initiative sponsored by the El Paso Branch of the Federal Reserve Bank and the United Way of El Paso County. This initiative seeks to expand knowledge of financial concepts and access to financial resources for LMI individuals.

## **EXTENT TO WHICH THE BANK PROVIDES COMMUNITY DEVELOPMENT SERVICES**

### **Full-Scope Assessment Areas**

Overall, the bank's performance in providing CD services in the full-scope AAs in Texas is adequate. CD services in Killeen, the bank's head office location, are excellent; however, the bank's activities are more limited in other full-scope areas.

FNBTX banking services are reasonably accessible to LMI individuals and families based on the bank's retail distribution systems. FNBTX provides financial services to LMI individuals primarily through its in-store branches and ATMs located in LMI areas throughout the State of Texas. During the evaluation period, FNBTX had 16 in-store branches and 18 ATMs in low-income CTs with an additional 63 in-store branches and 84 ATMs in moderate-income CTs. Additionally, six of the bank's new locations in Texas are located in low-income CTs and 19 are located in moderate-income CTs, thereby increasing access to financial services in LMI areas.

During the evaluation period, FNBTX also had eight in-store locations and three ATMs located in distressed or underserved geographies. At the end of 2012, however, based on updated analysis by the US Census bureau, only three of these branches remained in distressed or underserved geographies. Collectively, branches in low-, moderate- and distressed areas represent 40% of the bank's in-store branch network and 24% of the bank's ATMs are located in LMI areas.

Since the previous evaluation, FNBTX has closed 12 in-store locations in Texas. Most of the closed branches were located in upper- and middle- income areas; two locations were in low-income tracts and were closed due to supermarket (Kroger) closures. In two moderate-income areas where branches were closed at the bank's discretion, other FNBTX locations were available within at least three miles.

As mentioned in the "Description of the Institution" section of this PE, FNBTX offers a few lower-cost products designed for LMI individuals such as a reloadable pre-paid debit MasterCard, free online banking, and extended service hours within the in-store branch locations. In addition, the Smart Cash Small Dollar Loan Program is designed to be a more affordable alternative to ODs and pay day loans and includes a required education component.

### **Performance in the Killeen-Temple-Fort Hood AA**

CD service activities in KTFH market are excellent. Community service activities qualifying for CRA credit include those activities that have a CD purpose. Bank employees must serve as a representative of the bank and provide financial expertise to help qualifying organizations.

One of FNBTX's key focus areas is financial literacy and they accomplish this through various avenues. Bank personnel organize and oversee financial literacy training for LMI individuals and families at area schools, churches, and through local initiatives of organized national and international efforts, such as "*Bank On*" Central Texas and Junior (Jr.) Achievement. Typically led by local government or state public officials, "*Bank On*" programs are voluntary, public/private partnerships between local or state government, financial institutions, and community-based organizations that provide low-income un-banked and under-banked clients with free or low-cost bank accounts and access to financial education. Jr. Achievement is a hands-on, experiential program teaching the key concepts of work readiness, entrepreneurship, and financial literacy to young people. While the Jr. Achievement organization targets all children, FNBTX has made a concerted effort to target LMI students with financial literacy programs.

Since 2010, FNBTX has been an active sponsor, organizer, and participant in the annual Lemonade Day program. FNBTX supports the program financially and through the provision of financial education to area youth. Employees of FNBTX participate in the Lemonade Day training programs at local schools with high percentages of LMI students.

Bank employees also serve in a financial capacity on boards and committees for organizations promoting economic development (e.g., Central Texas Economic Development District, Copperas Cove Economic Development Corporation), providing housing for LMI individuals and families (e.g., City of Killeen HOME Program, Copperas Cove Housing Authority, Habitat for Humanity), healthcare (e.g., Killeen Noon Lions Club and local hospitals that help serve LMI populations), and other services. Other services include childcare, education-focused efforts for LMI students, job training and resources, emergency shelter and assistance for abuse victims and the homeless (e.g., Armed Services YMCA, Communities in Schools, Workforce Solutions of Central Texas, Texas Workforce Commission, and Families in Crisis).

### **Performance in the Houston – Sugar Land - Baytown (HSB) Assessment Area**

Community service activities in the HSB are adequate and include financial literacy training through "*Bank On*" Houston, and Jr. Achievement. The bank's Jr. Achievement programs in this AA are targeted to LMI students and schools. The bank facilitates job education and training through service at Goodwill Houston, and through the Harris County Department of Education, the bank provides basic skills education for adults and after-school programs for LMI children. Bank services through the YMCA help provide childcare for LMI families. Bank employees also serve in a financial capacity for the following types of entities in the Houston MSA: Greater Conroe Economic Development Corporation, Conroe Noon Lions Club (eye examinations, glasses, hearing conservation, scholarships for LMI students), The Salvation Army (emergency services and housing assistance), and Star of Hope Mission (serving needs of the homeless).

### **Performance in the Dallas – Plano - Irving (DPI) Assessment Area**

Community service activities in the Dallas AA have focused on financial literacy with the “*Bank On*” Dallas initiative and Jr. Achievement financial literacy programs that target LMI students. Overall community services are adequate when considering competition in this AA and the bank’s limited market share.

### **Limited-Scope Assessment Areas**

CD service performance in most of the limited scope AAs is weaker than the full-scope AAs. Community service activities in the limited-scope AAs include “*Bank On*” program participation, Jr. Achievement, Money Smart Week in El Paso, Domestic Violence Prevention of Texarkana, Volunteer Income Tax Assistance (VITA) for LMI individuals in the Austin - Round Rock - San Marcos AA, fundraising efforts for the United Way and area hospitals, which help provide essential services for LMI individuals.

FNBTX’s service also periodically includes participation with broader statewide entities that impact the bank’s AAs. During this evaluation period, a bank lender served on the Lending Committee for the Texas Guaranteed Student Loan Corporation (TGSLC), which benefits the state of Texas. TGSLC is a non-profit corporation offering resources to help students and families plan and prepare for college, learn the basics of money management, and repay their federal student loans. The TGSLC targets LMI students and families.

### **RESPONSIVENESS TO COMMUNITY DEVELOPMENT NEEDS**

Overall, FNBTX has demonstrated adequate responsiveness to identified needs and opportunities throughout the full-scope AAs. Affordable housing and community services are a continuing need in the AAs, and the bank has originated \$8 million in CD loans in Texas, supporting affordable housing. FNBTX has also invested \$7.6 million in CRA affordable housing investments, along with various donations to qualified organizations. Bank service activities have focused on financial literacy programs, which have been responsive to AA, identified needs for consumer financial education. The number of banking locations in LMI CTs also makes FNBTX’s banking services more accessible to LMI individuals and families.

### **Performance in the Killeen – Temple - Fort Hood Assessment Area**

FNBTX has demonstrated adequate responsiveness to community needs for affordable housing with CD loans and investments in the KTFH AA that provide affordable housing solutions for LMI individuals and families.

FNBTX has demonstrated responsiveness to community needs for financial education, which has been a focus, particularly of school-age children with the Lemonade Day program and a basic financial literacy program that is required as part of the Smart Cash loan program. The bank has also demonstrated support for financial education through the “*Bank On*” programs in Central Texas.

The bank’s new Smart Cash loan program has been responsive to community needs for lower-cost small consumer loan products. This product provides customers with an affordable small dollar loan that allows borrowers the opportunity to obtain an unsecured loan on reasonable terms and build a credit history.

**Performance in the Houston – Sugar Land - Baytown Assessment Area**

FNBTX has also responded to identified needs in this AA with the origination of loans and investments supporting housing for LMI individuals and families. Besides CRA-qualified investments, FNBTX has also made donations that support grants to non-profit agencies in the county and educational scholarships for local students, with a focus on LMI individuals.

Community service activities that are the most responsive to identified needs in the Houston MSA include financial literacy training, support for the “*Bank On*” Houston program, as well as job education and training.

The bank’s establishment of nine branches and nine ATMs in low-income areas of this AA is responsive to identified needs for additional banking services and ATMs in low-income areas. An additional 20 in-store branches and 15 ATMs located in moderate-income areas further support AA needs. Additionally, FNBTX has originated 294 Smart Cash loans in the Houston AA totaling \$157 thousand.

**Performance in the Dallas – Plano - Irving Assessment Area**

FNBTX has responded to some of the identified needs in this AA with the origination of loans to entities that provide housing for primarily LMI individuals and families. FNBTX has also invested in CRA-qualified investments related to housing, and they have provided modest donations benefitting the “*Bank On*” Dallas initiative. Community service activities in the Dallas MSA are limited to financial literacy and education with the “*Bank On*” Dallas program. FNBTX has also originated over 200 Smart Cash loans in this AA totaling \$116 thousand.

**Limited-Scope Assessment Areas**

FNBTX’s responsiveness to CD needs in the limited-scope areas of Austin, El Paso and Ft. Worth is consistent with the performance in full-scope areas; however, responsiveness in the other limited-scope AAs is poor.

**STATE RATING**

**STATE OF ARIZONA**

**CRA Rating for Arizona: Needs to Improve**

**The Lending Test is rated: Needs to Improve**

**The Community Development Test is rated: Needs to Improve**

- Loan volume in Arizona is low, representing approximately 19% of AA deposits. The number of loans was too small to perform a meaningful analysis of loan distribution by borrower income and by geography.
- CD activities in the full-scope AA reflect a poor responsiveness to CD needs in the AA.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN ARIZONA**

FNBTX established the first Arizona in-store branches in September 2011 in Goodyear and Phoenix, AZ. These branches are both located in Maricopa County, which is part of the Phoenix – Mesa - Glendale MSA. FNBTX established additional in-store branches in the cities of Chandler, Mesa, and Scottsdale in October 2011 and Surprise in April 2012. All of these locations are in Maricopa County.

FNBTX also opened in-store branches in the Tucson MSA in July 2012 and in the non-metropolitan county of Santa Cruz, in October 2012.

FNBTX has a total of 14 in-store branches and 14 ATMs in Arizona. The in-store branches are located in Wal-Mart and Pro's Ranch grocery stores. The Arizona branches represent a very small percentage of the bank's total deposits. In the FDIC's June 30, 2012 Market Share report, total Arizona deposits represented only 0.28% of the bank's total deposits. The bank's market share in Arizona is negligible.

The FDIC's June 30, 2012 Market Share report also shows that competition in the bank's Arizona AAs is strong with 65 FDIC-insured financial institutions in the bank's market areas. FNBTX is ranked #60 with their deposit market share.

Our analysis for the evaluation period focused on the Phoenix – Mesa - Glendale AA, as it has been open for at least one-half of the evaluation period at 15 months. The other AAs in this state have been open for less than 12 months.

## **SCOPE OF EVALUATION IN ARIZONA**

The rating for the State of Arizona is based upon a full-scope review of the bank's performance in Maricopa County of the Phoenix - Mesa - Glendale MSA. Our conclusions on the bank's lending performance are based primarily upon consumer loan originations and purchased student loans since the branch opening in September 2011 through the start date of this CRA evaluation. The Community Development Test covered this same period.

The Community Development Test included a review of loans, investments, grants and donations made in the bank's AA that meet the definition of CD. This test also included a review of CD services provided in the bank's AA.

The bank's branches in the Tucson MSA and Santa Cruz County have been open less than a year and there was not enough loan volume in these areas to perform a meaningful analysis. These AAs were excluded from the scope of this evaluation.

As part of the evaluation, we also reviewed recent information provided by a community organization in the Phoenix AA involved in affordable housing and first-time homebuyer programs. The OCC contacted this organization in order to help ascertain CD needs and opportunities in the Phoenix AA. Additional information on the community contact is provided below within the market profile for the Phoenix AA.

## Full-Scope Market Profile

### Description of Phoenix - Mesa - Glendale Assessment Area

The Phoenix – Mesa - Glendale MSA is comprised of Maricopa and Pinal Counties. FNBTX defined its Phoenix AA to include only Maricopa County. The bank has 11 branches and 11 ATMs located in the AA.

### Demographic Information

The AA is comprised of 916 CTs within Maricopa County. FNBTX in-store branches are located in two low-income geographies, one moderate-income geography, five middle-income geographies, and three upper-income geographies. The AA designations meet the requirements of the regulation and do not arbitrarily exclude LMI areas. The following table contains selected demographics on the Phoenix AA.

DEMOGRAPHIC INFORMATION FOR FULL SCOPE AREA: PHOENIX ASSESSMENT AREA FOR CENSUS 2010						
<i>Demographic Characteristics</i>	<i>#</i>	<i>Low % of #</i>	<i>Moderate % of #</i>	<i>Middle % of #</i>	<i>Upper % of #</i>	<i>NA* % of #</i>
Geographies (Census Tracts/BNAs)	916	9.39	23.91	31.99	33.62	1.09
Population by Geography (2010 US Census)	3,817,117	8.42	24.46	33.25	33.69	0.18
Owner-Occupied Housing by Geography	916,515	3.61	20.72	35.75	39.90	0.02
Business by Geography	453,321	6.48	15.59	29.79	47.67	0.47
Farms by Geography	7,844	5.84	16.94	32.28	44.71	0.23
Family Distribution by Income Level	913,798	20.93	17.44	20.15	41.48	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	350,618	13.75	36.07	32.18	18.00	0.00
Median Family Income		\$64,408				
HUD Adjusted Median Family Income for 2012		\$66,400		Median Housing Value	\$258,903	
Households Below Poverty Level		12%		Unemployment Rate (2012)	6.8%	

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census, 2010 US Census and 2011/ 2012 HUD updated median family income

The Phoenix AA, consisting of Maricopa County, is located in the south-central part of Arizona. Maricopa County is the fourth largest county in the U.S. Based on the 2000 Census, the population of the Phoenix AA was 3 million. Since 2000, the population has increased by 24% to 3.8 million which is a strong growth rate compared to the US average population growth of 10%. The AA is expected to continue to grow by more than 42% within the next 20 years.

### Employment and Economic Factors

Arizona has traditionally relied on population growth as its primary economic driver, fueling a need for construction jobs, tourism, and retirement related industries according to studies from Arizona State University and the Morrison Institute for Public Policy. However, the 2008 recession curtailed population growth and tourism, driving up unemployment, reducing state revenues, and devastating housing values. Foreclosure and bankruptcies increased to an

all-time high in 2009. The impact of foreclosures reduced home prices dramatically, and for some time, Phoenix was as affordable as it has been in several years according to the affordability index. Data from Arizona State University and the American Community Survey indicates that the median home value in Arizona declined from 28% higher than the national average in 2006, to 11% below average in 2011.

Arizona was one of the five states hit hardest by the 2007 - 2009 recession and housing crisis and in 2010, Arizona was awarded \$268 million through the US Treasury Department's "Hardest Hit" program. The Arizona Department of Housing on behalf of the Arizona Home Foreclosure Prevention Funding Corporation (AHFPFC) administers the program and it assists eligible Arizona homeowners in the form of principal reductions for loan modifications or eligible refinances, unemployment - underemployment mortgage assistance, reinstatement of delinquent payments, second lien elimination, and short sale assistance.

In addition, Arizona municipalities and counties received \$121 million of HUD's Neighborhood Stabilization Program (NSP1) grants, plus another \$60 million in NSP2 grants for Phoenix, and another \$45 million in NSP3 grants for neighborhood stabilization programs.

The decline in the housing market also had an impact on jobs. Arizona lost 300,000 jobs in the recession. From 2007 to 2009, the construction industry in Phoenix lost 70,000 jobs, out of a total job loss of approximately 170,000 jobs in the MSA. The job market in Phoenix has since improved with unemployment rates declining in December 2012 to 6.8% from 9.5% in 2011. The unemployment rate for the state of Arizona was 7.9% at December 2012.

The decline in home values, combined with high unemployment, had a significant impact on net worth, and an increase in demand for social services and safety net programs. According to data from the US Census Bureau and American Community Survey's one-year poverty estimates in 2011, Arizona tied for the sixth worst poverty level in the nation. The estimated poverty rate in 2011 was 19%, representing more than 1.2 million Arizona residents. The poverty rate in Phoenix was estimated to be 17%, an increase of 5% from 2010.

In 2012, economic conditions in the state and the Phoenix MSA have improved with stronger job, population and housing permit growth. Housing data from the University of Arizona indicates that median home values have increased 29% since March 2012 and foreclosures were well below peak levels in 2009.

Major employers in Phoenix include local, county, and state governments, higher education, including Arizona State University and the Apollo Group, financial services, Wal-Mart Stores, Inc., and Banner Health Centers.

Information compiled by the bank at year-end 2012 reflects deposits in the Phoenix AA totaling \$3.8 million within the 11 in-store branches. This volume of deposits represents .40% of the bank's total deposits.

The FDIC's June 30, 2012 deposit market share report shows strong competition in the Phoenix AA with 62 FDIC-insured financial institutions serving the market with 881 offices. FNBTX is ranked #57 in total market share.

Some of the largest competitors include Wells Fargo, JPMorgan Chase and Bank of America, which hold a combined 73% of deposits in this market.

### **Community Contacts**

The community contact in this AA identified credit needs in the AA for residential mortgages, consumer and business loans. The contact indicated that while home prices and unemployment levels have remained relatively stable over recent years, obtaining financing for first-time homebuyers continues to be a challenge. The contact felt that banks have done a good job with community involvement; however, banks could do a better job in offering affordable housing programs for LMI individuals.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ARIZONA**

- Loan volumes in Arizona are limited.
- Loan volume in the full scope AA was insufficient to perform a meaningful loan penetration and dispersion analysis. Because of insufficient lending, the Lending Test is rated “Needs to Improve.”

FNBTX’s responsiveness to CD needs is poor. Throughout the evaluation period, the bank’s CD activities have been limited to one \$500 thousand loan.

### **LENDING TEST**

The bank’s performance under the lending test in Arizona is rated “**Needs to Improve.**”

There are a few factors affecting loan volumes in the Arizona AAs, including the lack of a mortgage office and no full time loan officers within the in-store locations. In addition, the bank’s offices in these AAs are still relatively new and the bank does face stronger competition from other local in-state financial institutions.

#### **Conclusion for Full-Scope Assessment Areas**

Lending performance in the full-scope AA is poor. Since opening in September 2011, the bank has made only one home purchase loan in this AA totaling \$56 thousand. During the evaluation period, there were only 12 consumer loan originations totaling \$34 thousand. The majority of these loans (10) were small Smart Cash loans totaling \$4 thousand.

#### **Lending to Borrowers of Different Incomes**

The bank’s loan volume was too small for a meaningful analysis. Our analysis did find that the bank’s one residential loan in this AA was to a low-income borrower totaling \$56 thousand. We also found that 8 of the 10 Smart Cash Loans in this AA were to low-income borrowers and 1 was to a moderate-income borrower. Income information was not available for review on the purchased student loans.

#### **Geographic Distribution of Loans**

The bank’s loan volume was too small for a meaningful analysis; however, in the limited sample of Smart Cash Loans, 20% were in low-income CTs and 20% were in moderate-income CTs. The bank’s one residential loan in this AA is located in a low-income CT.

#### **Conclusion for Limited-Scope Assessment Areas**

No limited-scope AAs were included in the CRA evaluation for Arizona.



### **Responses to Complaints**

There were no CRA-related complaints during this evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the CD test in Arizona is rated "**Needs to Improve.**"

### **Number and Amount of Community Development Loans**

The bank originated one loan totaling \$500 thousand which was used to invest in a CRA fund providing affordable homes to three moderate-income borrowers within the Phoenix AA. Additionally, 1% of the earnings from the CRA Fund benefit the Senior Housing Crimes Prevention Foundation and the Arizona State Veteran's Home in Phoenix. The foundation indicates that 78% of the home's residents are LMI individuals.

### **Number and Amount of Qualified Investments**

FNBTX had no qualified investments during the evaluation period ending March 22, 2013.

### **Extent to Which the Bank Provides Community Development Services**

The bank had no CD service activities in this AA during the review period. The location of the bank's in-store offices in LMI areas does make the bank's services more accessible to LMI individuals. In the Phoenix AA, two of the 11 in-store locations are located in low-income CTs and one is located in a moderate-income CT. These stores represent 27% of the bank's locations in this AA.

### **Responsiveness to Community Development Needs**

FNBTX's responsiveness to CD needs in this AA is considered poor. CD activities in this AA are limited with the exception of the bank's in-store branch locations in LMI areas that provide increased access to financial services.

The bank's CD loans and investments do support the needs of LMI Senior Veterans and AA affordable housing needs; however, the impact is limited and a formal assessment of area needs has not been undertaken by the bank in this AA.

## **STATE RATING**

### **STATE OF NEW MEXICO**

**CRA Rating for New Mexico: Needs to Improve**

**The Lending Test is rated: Needs to Improve**

**The Community Development Test is rated: Needs to Improve**

- Loan volume in New Mexico is limited.
- Loan volume in the full scope AA was insufficient to perform a meaningful loan penetration and dispersion analysis. Because of the insufficient lending, the lending test is rated "Need to Improve."

- The bank has not been involved in CD activities in New Mexico. Responsiveness to CD activities, loans and investments in this AA is poor.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN NEW MEXICO**

FNBTX established its first New Mexico in-store branches in November 2011 in the cities of Bernalillo, Farmington, Las Cruces and Roswell. During 2012 - 2013, additional locations were established in Rio Rancho, Albuquerque and Hobbs.

The bank's AAs in New Mexico include three MSAs (Albuquerque, Farmington, and Las Cruces) and two rural non-MSA counties (Lea and Chaves). Roswell is located in Chaves County and Hobbs is located in Lea County. In-store branches are all located in Wal-Mart and Pro's Ranch Market grocery stores.

On the date of this CRA evaluation, FNBTX had a total of 10 in-store branches and 10 ATMs in New Mexico. The majority of the branches are located in the Albuquerque MSA.

FNBTX reports total deposits of \$2 million in New Mexico at year-end 2012. This volume of deposits represents only .2% of the bank's total deposit base. In the FDIC's June 30, 2012 deposit market share report, FNBTX's market share in New Mexico was negligible. The bank's deposit market share was next to last out of 64 FDIC insured banks in the state.

Our analysis for the evaluation period focused on the Las Cruces MSA. This branch has been open for at least one-half of the evaluation period and the FDIC's June 30, 2012 deposit market share report shows that the Las Cruces AA had the largest deposit base of all FNBTX branches in NM with \$388 thousand in deposits.

## **SCOPE OF EVALUATION IN NEW MEXICO**

The rating for New Mexico is based primarily upon a full-scope review of the bank's performance in the Las Cruces MSA. We also performed limited-scope reviews for Sandoval County AA, which is part of the Albuquerque MSA, the Farmington MSAs, and Chaves County (a non-MSA).

The limited-scope AAs each have approximately 20% - 26% of the bank's total deposits in New Mexico. All AAs included in this CRA evaluation have been open for at least a year.

We based our conclusions on the bank's residential lending performance, consumer loan originations as well as purchased student loans since the branch openings in November 2011 through the start date of this CRA evaluation. The Community Development Test covered this same period.

The Community Development Test included a review of loans, investments, grants and donations made in the bank's AA that meet the definition of CD. This test also included a review of CD services provided in the bank's AA.

The bank's branches in Bernalillo County (part of the Albuquerque MSA) and Lea County (Hobbs) have been open less than a year and there was not enough loan volume in these areas to perform a meaningful analysis.

During the CRA evaluation period in conjunction with another CRA examination, the OCC contacted an organization in the Las Cruces MSA to help ascertain CD needs and opportunities in that MSA. The organization contacted was an entity that assists small businesses in obtaining loans, developing business plans and growth. Additional information derived from this contact is further discussed below within the market profile for Las Cruces.

## **Full Scope Market Profile**

### **Description of Las Cruces Assessment Area**

The Las Cruces AA is comprised of Dona Ana County. FNBTX operates one in-store branch and one ATM in the Pro's Ranch Market grocery store in Las Cruces. The banking center opened in November 2011. The area where the branch is located is designated as a moderate-income tract based on 2010 Census data. Las Cruces branch deposits represent 32% of the bank's total deposits in New Mexico as reported in FDIC's June 30, 2012 market share report.

### **Demographic Information**

The 2010 Census data shows that the AA is comprised of 41 contiguous CTs within Dona Ana County, with 4 low-income, 16 moderate-, 7 middle-, and 14 upper-income geographies. The AA designations meet the requirements of the regulation and do not arbitrarily exclude LMI areas. Poverty rates in this AA are above national averages and other bank AAs at 23%. The following table contains additional demographic information on the AA.

DEMOGRAPHIC INFORMATION FOR FULL SCOPE AREA LAS CRUCES ASSESSMENT AREA FOR CENSUS 2010						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	41	9.76	39.02	17.07	34.15	0.00
Population by Geography (2010 US Census)	209,233	9.56	34.48	18.17	37.79	0.00
Owner-Occupied Housing by Geography	47,015	4.58	31.65	18.07	45.70	0.00
Business by Geography	13,167	7.93	27.11	17.58	47.38	0.00
Farms by Geography	511	3.52	41.68	11.55	43.25	0.00
Family Distribution by Income Level	50,020	25.10	16.55	16.27	42.09	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	20,830	12.31	48.09	14.93	24.68	0.00
Median Family Income		\$43,184	Median Housing Value		\$138,556	
HUD Adjusted Median Family Income for 2012		\$43,800	Unemployment Rate		5.4%	
Households Below Poverty Level		23%	(2012)			

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000, 2010 US Census, 2011-2012 HUD updated median family income, and Bureau of Labor and Statistics

Las Cruces is located in south-central New Mexico and is the largest city in the MSA. The 2010 Census data reflects a 20% increase in population since 2000. Over the last decade, the Las Cruces MSA has received recognition for its career growth, small business opportunities, and being one of the best places to retire. These accolades have contributed to the population growth and influx in retirees, students, and tourists.

### Employment and Economic Factors

Economic conditions within the Las Cruces MSA continue to fare better than the national economy. Las Cruces is the fastest-growing metro area in New Mexico and among the top 10 in the United States. Federal, state, and local government have become the main source of jobs in the area, due to the proximity of New Mexico State University (NMSU) and the White Sands Missile Range. NMSU is the city's largest employer, and it provides training and education for research facilities at White Sands. The White Sands Missile Range is the Army's largest installation, and the largest military installation in the Western Hemisphere covering more than 2.2 million acres, and is used by the Navy, Air Force, and NASA.

Unemployment trends in the Las Cruces MSA have fared better than state and national averages. According to the US Bureau of Labor Statistics, the seasonally adjusted unemployment rate for the nation was 7.8% as of December 2012, a decrease from the prior year of 8.5%. The unemployment rate for New Mexico was 6.6% at December 2012, while the unemployment rate for the Las Cruces MSA was at 5.4%.

FNBTX operates in a competitive environment in Las Cruces with larger regional banks, community banks, credit unions, and finance companies operating in this market. The FDIC's June 30, 2012 market share report reflects the bank's market share in Las Cruces is only .02%. FNBTX has the smallest amount of deposits of all financial institutions serving the Las Cruces market.

The FDIC's market share report shows 17 FDIC insured financial institutions in the AA with 45 offices. Some of the largest competitors in this AA include Wells Fargo and Citizens Bank of Las Cruces, which hold a combined 47% of deposits.

### **Community Contacts**

The Community Contact in the Las Cruces AA identified a need for small businesses loans and for borrower assistance in business plans. The contacts indicated that generally, the needs of small businesses are being met but financing options have declined because of the economy and undercapitalized condition of most small business. Flexible lending programs and gap financing for small businesses is an ongoing need.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NEW MEXICO**

- Loan volumes in the New Mexico are insufficient to perform a meaningful loan penetration and dispersion analysis. As a result, the Lending Test is rated "Needs to Improve".
- FNBTX has not focused on CD in New Mexico. There were no CD loans, investments, or services in the New Mexico AAs. The bank's responsiveness to community credit and development needs is poor.

### **LENDING TEST**

The bank's performance under the Lending Test in New Mexico is rated "Needs to Improve."

There are a few factors affecting loan volumes in the New Mexico AAs, including the lack of a mortgage office and no full time loan officers within the in-store locations. In addition, the bank's offices in these AAs are still relatively new and FNBTX does face stronger competition from other local in-state financial institutions.

During the evaluation period, FNBTX originated six residential mortgage loans in New Mexico AAs totaling \$1.1 million. All but one of these loans was in the full-scope Las Cruces AA.

Since opening in 2011, consumer loan originations in New Mexico have approximated only \$25 thousand. FNBTX also originated 21 "Smart Cash" loans in New Mexico AAs totaling \$11 thousand. The average size of "Smart Cash" loans is \$527. Purchased student loans in New Mexico AAs totaled \$111 thousand.

### **Conclusion for Full-Scope Assessment Areas – Las Cruces**

The primary loan product in this AA is consumer loans; however, during the evaluation period, FNBTX also originated five residential loans in the Las Cruces AA totaling \$747 thousand.

Consumer loan originations in the AA numbered only 13 and totaled \$12 thousand. The bank originated eight "Smart Cash" loans in this AA totaling \$3.7 thousand. In addition, FNBTX purchased 13 student loans in this AA totaling \$42 thousand.

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

The number of loans in this AA was too small to perform a meaningful analysis of loan penetration by borrower income.

We did find that of the four home purchase loans originated in the AA, 50% were to moderate-income borrowers and the remaining 50% were to middle-income borrowers. The home refinance loan was to an upper-income borrower. Although the number of residential loans is small, the distribution does show a willingness to lend among different income levels, including moderate-income borrowers.

### **Conclusion for Limited-Scope Assessment Area(s)**

Performance in the limited-scope AAs of Sandoval County, in the Albuquerque MSA, the Farmington MSA, and Chaves County is similar to the full-scope Las Cruces AA; however, FNBTX's loan and deposit volumes in the limited-scope AAs are lower than in the Las Cruces AA.

There were insufficient loan volumes to perform analyses of loan distribution by borrower income.

There was only one real estate loan in the Albuquerque MSA totaling \$403 thousand, which was a home refinance to an upper-income borrower in an upper-income area.

### **Geographic Distribution of Loans**

#### **Conclusion for Full-Scope Assessment Areas**

The loan volume in the Las Cruces AA was too small to perform a meaningful analysis of the geographic distribution of the bank's loans.

When reviewing the residential loans, we did find that in 2011, the bank's loans were evenly distributed throughout CTs of all income levels. In 2012, all loans were concentrated in upper-income CTs.

#### **Conclusion for Limited-Scope Assessment Areas**

Performance in the limited-scope AAs was similar to the Las Cruces full-scope AA in that there were an insufficient number of loans to perform a meaningful analysis.

### **Responses to Complaints**

There were no CRA-related complaints during this evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the Community Development Test in New Mexico is rated "Needs to Improve." FNBTX branch locations in this AA are all new since the prior CRA examination, but the bank has not made any CD efforts here since opening their in-store bank locations.

### **Number and Amount of Community Development Loans**

The bank did not have any qualifying CD loans in the Las Cruces or limited-scope AAs.

### **Number and Amount of Qualified Investments**

The bank made no CRA investments in this AA during the review period.

**Extent to Which the Bank Provides Community Development Services**

FNBTX had no CD service activities in this AA during the review period. However, the location of its in-store branches in moderate-income areas does make bank services more accessible to LMI individuals within the Las Cruces, Albuquerque and Farmington AAs. The bank opened 4 of their 10 in-store branches in moderate-income CTs.

**Responsiveness to Community Development Needs**

FNBTX 's responsiveness to CD needs in New Mexico is considered poor.

Other than providing LMI individuals greater access to financial services through their in-store branch network, FNBTX has not been responsive to CD 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”).

<b>Time Period Reviewed</b>		
Lending Test: January 1, 2010 – December 31, 2012 Community Development Test: September 16, 2009 to March 22, 2013		
<b>Financial Institution</b>		<b>Products Reviewed</b>
First National Bank Texas Killeen, Texas		1-4 Family Mortgage Loans Consumer Loans Business loans in Killeen and Houston MSAs Purchased Student Loans
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
<i>None</i>		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
<b>Arizona</b> Phoenix-Mesa-Glendale - (38060)	Full Scope	
<b>New Mexico</b> Albuquerque – (10740) Chaves County – (99999) Farmington - (22140) Las Cruces - (29740)	Limited Scope Limited Scope Limited Scope Full Scope	
<b>Texas MSAs</b> Amarillo – (11100) Austin-Round Rock-San Marcos – (12420) College Station – Bryan – (17780) Corpus Christi – (18580) Dallas-Plano-Irving – (19124) El Paso – (21340) Fort Worth-Arlington – (23104) Houston-Sugar Land-Baytown – (26420) Killeen – Temple - Fort Hood – (28660) Laredo – (29700) Longview – (30980) Lubbock – (31180) Midland – (33260)	Limited Scope Limited Scope Limited Scope Limited Scope Full Scope Limited Scope Limited Scope Limited Scope Full Scope Full Scope Limited Scope Limited Scope Limited Scope Limited Scope	



<p>Odessa – (36220)  San Angelo – (41660)  San Antonio - New Braunfels – (41700)  Sherman-Denison – (43300)  Texarkana – (45500)  Tyler – (46340)  Victoria – (47020)  Waco – (47380)  Wichita Falls – (48660)</p> <p><b>Texas Non - MSAs</b></p> <p><b>Central:</b>  Burnet  Kerr  Uvalde</p> <p><b>East:</b>  Anderson  Angelina  Hopkins  Nacogdoches  Walker</p> <p><b>North:</b>  Erath  Hill  Hood  Palo Pinto  Young</p> <p><b>Panhandle:</b>  Deaf Smith  Gray  Hale  Hockley  Moore</p> <p><b>South</b>  Bee  Jim Wells  Matagorda</p>	<p>Limited Scope  Limited Scope  Limited Scope  Limited Scope  Limited Scope  Limited Scope  Limited Scope  Limited Scope</p> <p>Limited Scope</p> <p>Limited Scope</p> <p>Limited Scope</p> <p>Limited Scope</p> <p>Limited Scope</p>	
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## Appendix B: Summary of State Ratings

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<b><i>OVERALL BANK:</i></b>	<b><i>LENDING TEST RATING</i></b>	<b><i>COMMUNITY DEVELOPMENT TEST RATING</i></b>	<b><i>OVERALL BANK/STATE/MULTISTATE RATING</i></b>
FIRST NATIONAL BANK TEXAS	SATISFACTORY	SATISFACTORY	NEEDS TO IMPROVE
TEXAS	SATISFACTORY	SATISFACTORY	SATISFACTORY
ARIZONA	NEEDS TO IMPROVE	NEEDS TO IMPROVE	NEEDS TO IMPROVE
NEW MEXICO	NEEDS TO IMPROVE	NEEDS TO IMPROVE	NEEDS TO IMPROVE