



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

August 13, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Falls City National Bank
Charter Number 8606

100 S Front Street
Falls City, TX 78113

Office of the Comptroller of the Currency

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NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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Overall CRA Rating: This institution is rated SATISFACTORY.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The Falls City National Bank (FCNB) has a satisfactory record of meeting community credit needs. The rating is based on the following findings:

- FCNB's quarterly average loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs in the assessment area (AA).
- The bank originated a majority of loans inside its AAs.
- The distribution of loans reflects reasonable penetration to borrowers of different income levels.
- The distribution of loans reflects reasonable dispersion to low- and moderate-income geographies.
- Community development (CD) performance demonstrates adequate responsiveness to CD needs in the AAs.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder' and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

FCNB, a full service community bank headquartered in Falls City, Texas was chartered in 1907. As of December 31, 2017, FCNB reported total assets of \$368 million and tier one capital of \$37 million, representing 10 percent of total assets.

FCNB has three offices located throughout Texas; one in Poth, one in Eagle Creek and the main office in Falls City. All three locations have a walk-in teller lobby, a drive-up motor bank, and an automated teller machine (ATM). FCNB has not opened or closed any branches since the last CRA examination in 2015.

In addition to a full range of residential and commercial banking products and services, the bank offers online banking through www.fcnb.net. The website allows consumers to obtain account activity, make loan payments, and transfer money between accounts.

As of December 31, 2017, net loans totaled \$121 million, equating to 36 percent of total deposits and 33 percent of total assets. Residential real estate loans are the largest lending segment by dollar volume, comprising 32 percent of the loan portfolio.

FCNB faces strong competition from local, regional, and national financial institutions in their AAs. Primary competitors include Wells Fargo Bank, Texas Champion Bank, The Karnes County National Bank, SouthTrust Bank, Heritage Bank, Commerce Bank Texas, and First National Bank Texas. According to the FDIC's June 30, 2017 Deposit Market Share Reports, FCNB ranks 2nd of 4 institutions in the Karnes County AA with 38 percent market share, and 3rd of 6 institutions in the Wilson County AA with 17 percent market share.

Based on its financial condition, local economy, product offerings, and competition, FCNB has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder its ability to provide credit in its AA. The previous CRA examination, dated August 14, 2015, assigned an overall "Satisfactory" rating under the small bank criteria.

Scope of the Evaluation

Evaluation Period/Products Evaluated

The Office of the Comptroller of the Currency (OCC) evaluated FCNB's CRA performance using Intermediate Small Bank (ISB) procedures, consistent with the provisions set forth in 12 CFR 25 Appendix A. ISB procedures include both lending and CD tests. The lending test evaluates the bank's record of meeting credit needs of its AA through its primary lending activities. The CD test evaluates the bank's responsiveness to identified needs in its AA through its CD lending, qualified investments, and CD services.

The evaluation period for this CRA examination is from August 15, 2015, the date of the last examination, through December 31, 2017, the date of the current examination. The evaluation period uses the most current 2010 US Census data in the analysis. FCNB's performance under the CRA is satisfactory, and management has been successful in meeting the credit needs of the bank's AAs.

The table below shows the breakdown of all loans that FCNB originated over the evaluation period. As shown, the primary product is consumer loans by both dollar volume and number of loans. The OCC also evaluated home mortgage loans as a primary product, as the bank already compiles and reports this data.

Loan Originations and Purchases By Loan Type During the Evaluation Period		
Loan Type	% by Dollar of Loans	% by Number of Loans
Home Mortgage Loans	10%	4%
Commercial Loans	25%	17%
Consumer Loans	51%	68%
Agricultural Loans	7%	10%
Other Loans	6%	1%
Total	100%	100%

Source: Internal Bank Reports

The lending test sampled loans originated, purchased, or renewed from January 1, 2016 through December 31, 2017. The Federal Financial Institutions Examination Council (FFIEC) issued a change to tract income level designations from 2016 to 2017 in both Wilson and Karnes County which altered the number of moderate- and middle-income census tracts. Because of this change, lending test samples were divided into two time periods; loans made during 2016 and loans made during 2017.

The OCC selected a sample of 20 consumer loans for each of the two years in the evaluation period and each of the two AAs, resulting in a total sample of 80 loans. The OCC used the entire population of 90 HMDA reportable loans to test home mortgage lending. Examiners used the original samples to determine lending inside the AA and then replaced loans that originated outside the AA with loans originating inside the AA to determine borrower distribution and geographic distribution.

Data Integrity

The sampling period used for home mortgage loans included all loans originated, purchased, or renewed for calendar years 2016 and 2017. The OCC reviewed a sample of HMDA reportable loans for these two years in order to verify accuracy of reported loan data. Examiners found the HMDA-reported data to be reliable for use in the current examination.

The sampling period for consumer loans included all loans originated, purchased, or renewed from January 1, 2016 to December 31, 2017. Examiners assessed data integrity by verifying information reported in loans sampled for the lending test to source documents. The data was found to be reliable as no discrepancies between bank reported and source document data were identified.

The sampling period for CD loans, services and investments ranged from August 15, 2015 through December 31, 2017. The OCC reviewed CD loans, investments, and services submitted by management for review to verify each met the regulatory definition for CD.

Selection of Areas for Full-Scope Review

FCNB has designated Karnes County and Wilson County as its two AAs. The AAs meet regulatory requirements, as each consists of whole geographies, and does not reflect illegal discrimination or arbitrarily exclude any low- or moderate-income geographies. By deposit activity, 79 percent of FCNB's deposits originated from the Karnes County AA and 21 percent from the Wilson County AA. The OCC conducted a full-scope review for each AA as both contributed significantly to bank operations. Please refer to **Appendix A** for more information on the scope of this evaluation.

Ratings

The bank's overall rating is based on the full-scope review of its two AAs. Both identified primary products (residential and consumer) were given equal weighting in determining the lending test rating.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

FCNB's performance under the lending test is **SATISFACTORY**. Management has been successful in meeting the credit needs of its AAs. FCNB has demonstrated satisfactory performance based on its reasonable average quarterly LTD ratio, originating the majority of loans inside the AAs, reasonable lending penetration to borrowers of various income levels, and reasonable lending dispersion to low- and moderate-income geographies.

Loan-to-Deposit Ratio

The quarterly average LTD ratio is reasonable and reflects satisfactory performance given the bank's capacity to lend, market competition, local demographics, economic factors, and lending opportunities available in the AAs. The bank's average quarterly LTD ratio for the 12 quarters in the evaluation period was 37 percent and ranged from a low of 33 percent at March 31, 2018 to a high of 39 percent at June 30, 2016.

To assess FCNB's performance, examiners compared this average to four similarly sized institutions that have a market presence in either Karnes or Wilson counties. These institutions were selected due to overall asset size and geographic location. While FCNB's LTD ratio falls considerably below three of the four institutions, there are performance context factors that reasonably explain the differences.

Though smaller in total assets, Texas Champion Bank has a much larger market presence with a total of 11 branches; several of these being located in larger metropolitan areas such as San Antonio and Corpus Christi. Likewise, SouthTrust Bank has a total of six branches with some in larger cities such as San Antonio and Houston. Heritage Bank does not have branches located in larger cities; however, it does have offices located in Brazoria and Red River Counties. As discussed in the description of the AA in **Appendix B**, FCNB operates within the heart of the Eagle Ford Shale. The influx of oil well royalties has been a primary driver of deposit growth and the reduction of loan demand in the area. These three institutions' access to markets outside of the Eagle Ford Shale gives them additional opportunity to lend that is unavailable to FCNB. This situation is further demonstrated when compared to The Karnes County National Bank (KCNB). Both of KCNB's locations are in Karnes County and its low 27 percent average LTD ratio helps to exemplify the minimal lending opportunities in the area. Given this additional information, it is reasonable to conclude that FCNB is exhibiting satisfactory performance.

Please note banks in the following table are listed by LTD ratio, but no ranking is intended or implied. In addition, LTD ratios are calculated on a bank-wide basis.

Loan-to-Deposit Ratio		
Institution	Total Assets (\$000s)	Average Quarterly LTD Ratio
Heritage Bank	260,933	99
Texas Champion Bank	320,630	96
Southtrust Bank, National Association	361,200	79
The Falls City National Bank	384,489	37
The Karnes County National Bank of Karnes City	385,054	27

Source: Institution Reports of Condition from June 30, 2015 to March 31, 2018

Lending in Assessment Area

FCNB originated a majority of loans, by number and dollar volume, inside its AAs and exhibits satisfactory performance. As the following table shows, 74 percent by number, and 60 percent by dollar volume of the loans sampled originated inside the AAs. Please note that the proportion of lending inside versus outside the bank's AA is calculated on a bank-wide basis.

Table 1 - Lending in Karnes and Wilson Counties										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$000s
	#	%	#	%		\$000s	%	\$000s	%	
Home Mortgage	62	69	28	31	90	6,972	57	5,183	43	12,155
Consumer	19	95	1	5	20	957	100	2	0	959
Totals	81	74	29	26	110	7,929	60	5,185	40	13,114

Source: 01/10/2016-12/31/2017 Bank Data

Geographic Distribution of Loans

FCNB's geographic distribution of loans reflects reasonable dispersion and satisfactory performance throughout its AAs given the bank's size, primary loan products, and demographics. Geographic distribution of home mortgage loans to moderate-income geographies for the 2016 evaluation period exceeded the standard in both AAs lending weight to an overall satisfactory rating. While geographic distribution of consumer loans to moderate-income geographies in Wilson County AA did not meet the standard in 2017; this was the result of the FFIEC's reclassification of two moderate-income tracts to middle-income as the bank's pattern and strategy of lending had not changed from year-to-year. Refer to **Table O (Home Mortgage)** and **Table U (Consumer)** in **Appendix C** for the facts and data used to evaluate the geographic distribution of the bank's loan originations and purchases.

Karnes County AA

FCNB's geographic distribution of loans reflects reasonable dispersion and satisfactory performance in the Karnes County AA.

2017 Loans

For this time period, Karnes County did not have any low- or moderate-income census tracts. As such, a geographic analysis would not be meaningful and was not performed.

2016 Loans

During this time period, Karnes County had four census tracts, one moderate-, two middle-, and one upper-income. The FFIEC website reflects that the two middle-income census tracts were designated as distressed or underserved. Overall geographic distribution of loan originations in 2016 was reasonable.

- The distribution of home mortgage loans in moderate-income geographies exceeded the standard, and there were no low-income geographies for this time period. The proportion of home mortgage loans originated in moderate-income geographies exceeded the proportion of owner-occupied housing units in those geographies, and FCNB's proportion of home mortgage loans was stronger than the aggregate distribution of loans in those geographies.
- The distribution of consumer loans in moderate-income geographies meets the standard. The proportion of consumer loans originated in moderate-income geographies slightly exceeded the proportion of households in those geographies.

Wilson County AA

FCNB's geographic distribution of loans reflects reasonable dispersion and satisfactory performance in the Wilson County AA.

2017 Loans

In 2017, Wilson County had 11 census tracts, one moderate-, six middle-, and four upper-income. The FFIEC Census Reports website reflects that the income designation for three of the tracts were reclassified in 2017 with two previously moderate-income tracts becoming middle-income and one middle-income tract becoming moderate. Overall geographic distribution of loan originations in 2017 was consistent with reasonable dispersion.

- FCNB did not originate any home mortgage loans in moderate-income tracts, however this was not given significant weight as lending opportunities were limited in these geographies. Only 5 percent of owner-occupied housing units were located in these geographies and aggregate loans made by other lenders in this area totaled only 3 percent. There were no low-income geographies for this time period.
- The distribution of consumer loans in moderate-income geographies does not meet the standard. Bank originated consumer loans was lower than the proportion of households in those geographies.
- The reclassification of two moderate-income tracts, 3.00 and 4.02, to middle-income and one middle-income tract, 2.01, to moderate had a significant impact on FCNB's performance in this area.
- When looking at home mortgage lending for 2016, the sample indicated that three loans were originated to tracts 3.00 and 4.02. Similar lending was seen in 2017 with an additional 3 loans being originated to the same tracts.

- The consumer lending sample showed similarities between the three loans originated in tracts 3.01 and 4.02 in 2016 and the two loans originated in those tracts in 2017. The sample indicates that FCNB's proportion of lending to these areas has not shifted from year-to-year and the primary reason for poor performance is due to the tract reclassifications. FCNB has not made changes to their lending strategy during this time-frame and a single year does not provide a significant time lapse for management to develop a new lending strategy in order to target the new, and now only, moderate-income tract located within this AA.

2016 Loans

In 2016, Wilson County had 11 census tracts, two moderate, five middle, and four upper-income. Overall geographic distribution of loans in 2016 was consistent with satisfactory dispersion.

- The distribution of home mortgage loans in moderate-income geographies exceeded the standard, and there were no low-income geographies for this time period. The proportion of home mortgage loans originated in moderate-income geographies exceeded the proportion of owner-occupied housing units in those geographies, and FCNB's proportion of home mortgage loans was stronger than the aggregate distribution of loans in those geographies.
- The distribution of consumer loans in moderate-income geographies is satisfactory and shows reasonable dispersion. The proportion of consumer loans originated in moderate-income geographies was generally comparable to the proportion of households in those geographies.

Lending to Borrowers of Different Incomes

FCNB's distribution of loans to borrowers of different income levels reflects overall reasonable penetration and satisfactory performance throughout its AAs. Consumer loans to low-income borrowers in Karnes County AA exceed the standard in 2016 and 2017. Though mortgage lending to low-income borrowers did not meet the standard for Karnes County AA relative to the ratio of low-income families, comparison to aggregate data and FCNB's performance context helps to explain the performance. Refer to **Table P (Home Mortgage)** and **Table V (Consumer)** in **Appendix C** for the facts and data used to evaluate the borrower distribution of the bank's loan originations and purchases.

Karnes County AA

2017 Loans

Overall borrower distribution of loans in 2017 was consistent with reasonable distribution.

- The distribution of home mortgage loans to borrowers of different income levels reflects reasonable distribution. The proportion of home mortgage loans to moderate-income borrowers is comparable to aggregate distribution of loans by other lenders in the area. FCNB's proportion of home mortgage loans to moderate-income borrowers is below the ratio of families that are at that income level, but is not significantly below. The proportion of home mortgage loans to low-income borrowers was significantly below the

percentage of low-income families, with the bank originating no loans to these borrowers. However, this was explainable when considering aggregate data of other lenders in the area and other performance context factors. FCNB's performance in this area matched aggregate data of other local lenders, which also showed zero loans originated to low-income borrowers in Karnes County.

- The maximum annual income in order for a borrower to fall into the low-income category was \$27,100. Additionally, 23 percent of all households in the AA lived below the federal poverty line. For 2017, the poverty line for a household of four was \$24,600 and gradually lowers to \$12,060 for a household of one. Census data for this time period places the median housing value at \$88,450. Higher housing values coupled with lower income levels constrains institutions' ability to lend to these borrowers as the proportion of properties affordable are limited.
- The distribution of consumer loans originated to borrowers of different income levels exceeds the standard. The proportion of consumer loans originated to both low- and moderate-income borrowers significantly exceeds the ratio of households at those income levels.
- Additionally, it should be noted that FCNB's proportion of consumer loans to low-income borrowers was 30 percent, which was stronger than the 27 percent of households that fall into this category. The bank's performance in this area helps to demonstrate that it does, in fact, lend to this class of borrower and lessens the weight given to the poor performance seen in home mortgage lending to low-income borrowers.

2016 Loans

Overall borrower distribution of loans in 2016 was consistent with reasonable penetration. Performance that does not meet the standard for distribution of home mortgage loans is mitigated by performance that exceeds the standard for distribution of consumer loans.

- The distribution of home mortgage loans originated to borrowers of different income levels does not meet the standard, but is explainable by the performance context. The proportion of home mortgage loans to moderate-income borrowers is only slightly below the ratio of families that are at that income level, and it exceeds the aggregate penetration of peer banks. The proportion of home mortgage loans to low-income borrowers is significantly below the ratio of families that are at this income level.
- The maximum annual income in order for a borrower to fall into the low-income category was \$26,200. Additionally, 21 percent of all households in the AA lived below the federal poverty line. The poverty line for a household of four was \$24,300 and gradually lowers to \$11,880 for a household of one. Census data for this time period places the median housing value at \$74,114. Higher housing values coupled with lower income levels constrains institutions' ability to lend to these borrowers as the proportion of properties affordable are limited.
- The distribution of consumer loans to borrowers of different income levels exceeds the standard. The bank's origination of consumer loans to borrowers of both low- and moderate-income borrowers was significantly stronger than the proportion of households in those categories.

- Additionally, FCNB's proportion of consumer loans to low-income borrowers was 35 percent which was significantly stronger than the 27 percent of households that fall into this category. The bank's performance in this area helps to demonstrate that it does lend to this class of borrower and lessens the weight given to the poor performance seen in home mortgage lending to low-income borrowers.

Wilson County AA

2017 Loans

Overall borrower distribution of loans in 2017 was consistent with reasonable penetration. Performance meets the standard across primary products for both low- and moderate-income borrowers.

- The distribution of home mortgage loans originated to borrowers of different income levels meets the standard. The proportion of home mortgage loans to both low- and moderate-income borrowers is only slightly below the ratio of families that are at the respective income levels, but not significantly below, and it exceeds the aggregate penetration of peer banks.
- The distribution of consumer loans originated to borrowers of different income levels meets the standard. The proportion of consumer loans to both low- and moderate-income borrowers meet the ratio of families that are at the respective income levels.

2016 Loans

Overall borrower distribution of loans in 2016 was consistent with reasonable penetration. Performance meets the standard for home mortgage loans and exceeds the standard for consumer loans.

- The distribution of home mortgage loans originated to borrowers of different income levels meets the standard. The proportion of home mortgage loans to both low- and moderate-income borrowers is only slightly below the ratio of families that are at the respective income levels, but is not significantly below. For loans to low- and moderate-income borrowers, the bank's penetration exceeds the aggregate penetration of other lenders in the area.
- The distribution of consumer loans originated to borrowers of different income levels exceeds the standard. The proportion of consumer loans to both low- and moderate-income borrowers significantly exceeds the ratio of families that are at the respective income levels.

Responses to Complaints

FCNB did not receive any complaints related to its CRA performance during the evaluation period. This has a neutral impact on the bank's overall performance.

COMMUNITY DEVELOPMENT TEST

FCNB CD performance demonstrates adequate responsiveness to community development needs.

Number and Amount of Community Development Loans

FCNB originated 15 qualifying CD loans totaling \$1.8 million during the evaluation period. A majority of the loans supported community development as the loans provided financing for affordable housing benefitting low- and moderate-income individuals, primarily in the Karnes County AA.

Number and Amount of Qualified Investments

FCNB made adequate investments in organizations providing community services for low- to moderate-income individuals and families in distressed areas. The bank made two investments totaling \$440 thousand in bonds that will provide infrastructure to help revitalize or stabilize a distressed or underserved area in the Karnes County AA. In addition, FCNB has made one investment of \$1.5 million in affordable housing serving low- and moderate-income individuals in the South Texas area, and 16 investments totaling \$4 million in minority and women owned financial institutions and community development financial institutions.

Extent to Which the Bank Provides Community Development Services

FCNB provided satisfactory levels of CD services in its AAs during the evaluation period. Among other things, FCNB employees participate in the following local organizations that benefit low- and moderate-income individuals.

An FCNB employee serves as the treasurer of the Holy Trinity Catholic Church, which organizes donation drives for the benefit of low-income individuals in the Karnes County AA.

FCNB employees serve as president, treasurer, and secretary of the Karnes County Lions Club, which provides means-tested assistance to low-income individuals with purchases of eyeglasses and hearing aids in the Karnes County AA.

Responsiveness to Community Development Needs

FCNB has demonstrated adequate responsiveness to community development needs. FCNB has met the needs of its AAs through loans providing financing for affordable housing, investments in infrastructure to help revitalize or stabilize distressed or underserved areas, and engaging in activities related to the provision of financial services that benefit low- and moderate-income individuals.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD loans): (1/1/2016 to 12/31/2017) Investment, Service Tests, and CD Loans: (08/15/2015 to 12/31/2017)	
Financial Institution	Products Reviewed	
The Falls City National Bank (FCNB) Falls City, TX	Home mortgage and consumer loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
<i>None</i>	N/A	N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Karnes County	Full Scope	Non-MSA; contains only 1 upper and 2 middle-income census tracts; middle-income tracts classified as distressed or under-served
Wilson County	Full Scope	Part of the San Antonio-New Braunfels MSA 41700; contains 11 census tracts, three of which were reclassified from 2016 to 2017

Appendix B: Community Profiles for Full-Scope Areas

Karnes County Assessment Area

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0	0	75	25	0
Population by Geography	14,879	0	0	83	17	0
Housing Units by Geography	5,773	0	0	78	22	0
Owner-Occupied Units by Geography	3,243	0	0	76	24	0
Occupied Rental Units by Geography	1,066	0	0	89	11	0
Vacant Units by Geography	1,464	0	0	75	25	0
Businesses by Geography	798	0	0	85	15	0
Farms by Geography	77	0	0	61	39	0
Family Distribution by Income Level	2,931	24	14	16	46	0
Household Distribution by Income Level	4,309	28	13	14	45	0
Median Family Income Non-MSAs - TX		\$54,200	Median Housing Value			\$88,450
			Median Gross Rent			\$618
			Families Below Poverty Level			20%

*Source: 2015 ACS Census and 2017 D&B Data
Due to rounding, totals may not equal 100.0
(* The NA category consists of geographies that have not been assigned an income classification.)*

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	4	0	25	50	25	0
Population by Geography	14,824	0	10	75	15	0
Housing Units by Geography	5,533	0	12	67	21	0.0
Owner-Occupied Units by Geography	3,203	0	8	69	23	0
Occupied Rental Units by Geography	1,454	0	14	70	16	0
Vacant Units by Geography	876	0	18	58	24	0
Businesses by Geography	805	0	6	80	14	0
Farms by Geography	87	0	9	53	38	0
Family Distribution by Income Level	3,452	25	17	17	41	0
Household Distribution by Income Level	4,657	27	15	17	41	0
Median Family Income Non-MSAs - TX		\$52,400	Median Housing Value			\$74,114
			Median Gross Rent			\$565
			Families Below Poverty Level			17%

*Source: 2015 ACS Census and 2017 D&B Data
Due to rounding, totals may not equal 100.0
(* The NA category consists of geographies that have not been assigned an income classification.)*

The Karnes County AA includes all four CTs in the county and is not located in an MSA. In 2017, three tracts were middle-income and one tract was upper-income. Three tracts were also classified as distressed or underserved areas. In 2016, one tract was moderate-income, two tracts were middle-income and one tract was upper-income.

FCNB's main office is located in Falls City, Texas in the northern end of Karnes County. The bank faces heavy competition in the county with several banks and credit unions that operate with locations throughout the county. The Karnes County National Bank has its main office in Karnes City and a branch in Kenedy. Wells Fargo, Texas Champion, and TexStar Credit Union also have branches in Kenedy.

The local economy puts the bank in a unique situation compared to other institutions in neighboring areas. Economic activity is largely oil and gas related due to the Eagle Ford Shale formation. When oil and gas activity picks up, the bank receives an influx of deposits from customers who receive royalty checks. Likewise, loan demand slows down significantly as the customer base no longer has a borrowing need.

The OCC contacted a local community organization to gain perspective on credit needs in the AA. The contact stated that local institutions are involved in the local community. The community contact did not identify any opportunities for improving access to credit or financial literacy in the community. The contact stated that financial institutions in the area are meeting the credit needs of the community.

Wilson County Assessment Area

Table A – 2017 Demographic Information of the Wilson County Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	11	0.0	9	55	36	0
Population by Geography	45,509	0	5	49	46	0
Housing Units by Geography	16,931	0	5	52	43	0
Owner-Occupied Units by Geography	12,931	0	5	46	49	0
Occupied Rental Units by Geography	2,546	0	4	76	20	0
Vacant Units by Geography	1,454	0	10	65	25	0
Businesses by Geography	2,136	0	4	48	48	0
Farms by Geography	169	0	5	68	27	0
Family Distribution by Income Level	12,015	16	13	19	52	0
Household Distribution by Income Level	15,477	19	12	16	53	0
Median Family Income Non-MSAs - TX		\$64,300	Median Housing Value			\$158,135
			Median Gross Rent			\$800
			Families Below Poverty Level			8%

Source: 2015 ACS Census and 2017 D&B Data
 Due to rounding, totals may not equal 100.0
 (*) The NA category consists of geographies that have not been assigned an income classification.

Table A – 2016 Demographic Information of the Wilson County Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	11	0	18	46	36	0
Population by Geography	42,918	0	18	37	45	0
Housing Units by Geography	15,943	0	19	39	42	0
Owner-Occupied Units by Geography	12,212	0	14	38	48	0
Occupied Rental Units by Geography	2,243	0	43	34	23	0
Vacant Units by Geography	1,488	0	22	54	24	0
Businesses by Geography	2,059	0	24	30	46	0
Farms by Geography	182	0	13	62	25	0
Family Distribution by Income Level	11,717	15	15	22	48	0
Household Distribution by Income Level	14,455	18	12	18	52	0
Median Family Income Non-MSAs - TX		\$62,500	Median Housing Value			\$124,930
			Median Gross Rent			\$738
			Families Below Poverty Level			7%

Source: 2015 ACS Census and 2017 D&B Data
 Due to rounding, totals may not equal 100.0
 (*) The NA category consists of geographies that have not been assigned an income classification.

Wilson County is one of the eight counties located in the San Antonio-New Braunfels MSA. The MSA is the 24th largest in the nation with a combined population of 2.4 million. By population, the largest counties in the MSA are Guadalupe County, and Comal County. By population, the largest cities are San Antonio, New Braunfels, and San Marcos.

FCNB operates one banking center with an ATM in the AA located in Poth, Texas. In 2017 Wilson County, located approximately 45 miles southeast of San Antonio, had no low-, one moderate-, six middle-, and four upper-income tracts. In 2016, Wilson County had no low-income census tracts, 2 moderate-, 5 middle-, and 4 upper-income tracts. The 2010 census updated for 2017 indicates a county population of 42,918. As of January 2018, the US Bureau of Labor Statistics reports an unemployment rate of 3.2 percent, which is below the 4.2 percent statewide unemployment rate and the national average of 4.1 percent.

The employers primarily supporting the population of the city and county consist of school districts such as Floresville ISD and local retail chains such as Walmart and HEB. The OCC contacted a local community organization to gain perspective on credit needs in the AA. The contact stated that local institutions are very involved in the local community. The community contact did not identify any opportunities for improving access to credit or financial literacy in the community. The contact stated that financial institutions in the area are meeting the credit needs of the community.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to Appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases; (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area. Deposit data is compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE. Tables are identified by both letters and numbers, which results from how they are generated in supervisory analytical systems. [Note: Do not renumber the tables.]

The following is a listing and brief description of the tables included in each set:

Table O. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.

Table P. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents aggregate peer data for the years the data is available.

Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. Because small business data is not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank's assessment area.

Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. The table also presents aggregate peer data for the years the data is available.

- Table S. Assessment Area Distribution of Loans to Farms by Income Category of the Geography** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. Because small farm data is not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table T. Assessment Area Distribution of Loans to Farms by Gross Annual Revenues** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. The table also presents aggregate peer data for the years the data is available.
- Table U. Assessment Area Distribution of Consumer Loans by Income Category of the Geography** – Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households throughout those geographies.
- Table V. Assessment Area Distribution of Consumer Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of households by income level in each MA/assessment area.

Table O : Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography **2017**

Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts		
	#	\$(000s)	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate
Karnes County AA	14	1,407	40	135	0	0	0	0	0	0	76	57	73	24	43	27	0	0	0
Wilson County AA	21	2,722	60	1,576	0	0	0	5	0	3	46	76	35	49	24	62	0	0	0
Total	35	4,129	100	1,711	0	0	0	4	0	3	52	67	38	44	31	60	0	0	0

Source: 2015 ACS Census; 01/01/2017 - 12/31/2017 Bank Data, 2017 HMDA Aggregate Data, "--" data not available.
 Due to rounding, totals may not equal 100

Table O : Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography **2016**

Assessment Area:	Total Home Mortgage Loans				Low-Income Tracts			Moderate-Income Tracts			Middle-Income Tracts			Upper-Income Tracts			Not Available-Income Tracts		
	#	\$(000s)	% of Total	Overall Market	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate	% of Owner-Occupied Housing Units	% Bank Loans	Aggregate
Karnes County AA	13	1,376	48	134	0	0	0	9	15	11	68	54	56	23	31	33	0	0	0
Wilson County AA	14	1,467	52	1,566	0	0	0	14	21	12	38	64	24	48	14	64	0	0	0
Total	27	2,843	100	1,700	0	0	0	13	19	12	44	59	27	43	22	62	0	0	0

Source: 2010 U.S Census; 01/01/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available.
 Due to rounding, totals may not equal 100

Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																			2017
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers		
	#	\$(000s)	% of Total	Overall Market	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate
Karnes County AA	14	1,407	40	135	24	0	0	14	7	9	16	43	32	47	50	44	0	0	15
Wilson County AA	21	2,722	60	1,576	16	14	2	13	10	9	19	10	17	53	57	53	0	10	19
Total	35	4,129	100	1,711	17	9	2	13	9	9	18	23	18	52	54	53	0	6	19

*Source: 2015 ACS Census; 01/01/2017 - 12/31/2017 Bank Data, 2017 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100*

Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower																			2016
Assessment Area:	Total Home Mortgage Loans				Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers			Not Available-Income Borrowers		
	#	\$(000s)	% of Total	Overall Market	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate	% Families	% Bank Loans	Aggregate
Karnes County AA	13	1,376	48	134	26	0	5	17	8	5	17	8	13	41	77	65	0	8	13
Wilson County AA	14	1,467	52	1,566	15	7	2	15	14	6	22	14	17	48	57	54	0	7	21
Total	27	2,843	100	1,700	18	4	2	15	11	6	21	11	17	47	67	55	0	7	2

*Source: 2010 U.S Census; 01/01/2016 - 12/31/2016 Bank Data, 2016 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100*

Table U: Assessment Area Distribution of Consumer Loans by Income Category of the Geography													2017	
Assessment Area:	Total Consumer Loans			Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts		Not Available-Income Tracts		
	#	\$(000s)	% of Total	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	
Karnes County AA	20	420	33	0	0	0	0	79	50	21	50	0	0	
Wilson County AA	20	836	67	0	0	5	0	51	70	44	30	0	0	
Total	40	1,256	100	0	0	4	0	57	60	39	40	0	0	

Source: 2015 ACS Census; 01/01/2017 - 12/31/2017 Bank Data.
Due to rounding, totals may not equal 100

Table U: Assessment Area Distribution of Consumer Loans by Income Category of the Geography													2016	
Assessment Area:	Total Consumer Loans			Low-Income Tracts		Moderate-Income Tracts		Middle-Income Tracts		Upper-Income Tracts		Not Available-Income Tracts		
	#	\$(000s)	% of Total	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	
Karnes County AA	20	481	38	0	0	10	15	69	50	21	35	0	0	
Wilson County AA	20	777	62	0	0	19	15	37	60	44	25	0	0	
Total	40	1,258	100	0	0	17	15	45	55	39	30	0	0	

Source: 2010 U.S Census; 01/01/2016 - 12/31/2016 Bank Data.
Due to rounding, totals may not equal 100

Table V - Assessment Area Distribution of Consumer Loans by Income Category of the Borrower													2017	
Assessment Area:	Total Consumer Loans			Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Not Available-Income Borrowers		
	#	\$(000s)	% of Total \$	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	
Karnes County AA	20	420	33	28	30	13	40	14	0	45	30	0	0	
Wilson County AA	20	836	84	19	20	12	15	16	15	53	50	0	0	
Total	40	1,256	100	21	25	12	28	15	8	51	40	0	0	

Source: 2015 ACS Census; 01/01/2017 - 12/31/2017 Bank Data.
Due to rounding, totals may not equal 100

Table V - Assessment Area Distribution of Consumer Loans by Income Category of the Borrower													2016	
Assessment Area:	Total Consumer Loans			Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Not Available-Income Borrowers		
	#	\$(000s)	% of Total \$	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	
Karnes County AA	20	481	28	27	35	15	35	17	5	41	25	0	0	
Wilson County AA	20	777	62	18	30	13	25	18	15	52	30	0	0	
Total	40	1,258	100	20	33	13	30	18	10	49	28	0	0	

Source: 2010 U.S Census; 01/01/2016 - 12/31/2016 Bank Data.
Due to rounding, totals may not equal 100