



PUBLIC DISCLOSURE

March 17, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank in Dalhart
Charter Number 14199

302 Denrock Avenue
Dalhart, TX 79022

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

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

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The First National Bank of Dalhart's (FNB) CRA performance is Satisfactory. The rating is based on the following:

- FNB's quarterly average net loan-to-deposit (LTD) ratio of 72 percent is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank's loans, 89 percent by number and 83 percent by dollar volume, were made to borrowers within the AA.
- FNB has an excellent penetration to businesses of different sizes and a reasonable penetration to borrowers of various income levels.

SCOPE OF EXAMINATION

This Performance Evaluation assesses FNB's record of meeting the credit needs of the community in which it operates. We evaluated FNB using small bank performance criteria, including LTD ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, geographic distribution, and responses to CRA-related complaints.

To evaluate FNB's lending performance, we selected a random sample of loans from the bank's primary loan types. Primary loan types are those products that were originated at the highest percentage by number or dollar amount of loans. We sampled 24 commercial loans and 30 consumer loans originated between January 1, 2012 and December 31, 2013.

DESCRIPTION OF INSTITUTION

FNB is a community bank located in Dalhart, Texas, approximately 85 miles north of Amarillo. FNB is an intra-state bank with one banking office and a drive-up facility. The bank is wholly owned by First Dalhart Bancshares, a one-bank holding company. As of December 31, 2013, FNB had total assets of \$68 million, with net loans and leases comprising 58 percent of this total. The bank's loan products include business, farm, consumer, and residential real estate. The following table depicts FNB's loan portfolio composition.

| Loan Portfolio Composition as of December 31, 2013 | | | | |
|---|-----------------------|---------------|-------------------|---------------|
| Loan Type | \$000 of Loans | % | # of Loans | % |
| Commercial and Commercial Real Estate | 18,884 | 46.77 | 242 | 32.27 |
| Agricultural and Agricultural Real Estate | 14,228 | 35.24 | 216 | 28.80 |
| Residential Real Estate | 1,064 | 2.64 | 2 | 0.27 |
| Consumer | 535 | 1.33 | 241 | 32.13 |
| States and Political Subdivisions | 5,659 | 14.02 | 49 | 6.53 |
| TOTAL | 40,372 | 100.00 | 750 | 100.00 |

Source: December 31, 2013 Call Report

The bank offers a full range of traditional commercial and consumer banking products and related financial services. Bank lobby and drive-through services are provided Monday through Friday. The bank provides 24-hour access to banking services through telebanking and its website at www.fnbdalhart.com. Internet banking services include account balance inquiries, funds transfers, and bill pay.

Management and the Board’s primary business strategy is to serve commercial, agricultural, and retail customers in Dallam and Hartley Counties. FNB was rated “Outstanding” at the previous CRA examination on August 20, 2007. FNB has no legal or financial circumstances that impede the bank’s ability to help meet the credit needs in its AA.

DESCRIPTION OF ASSESSMENT AREA(S)

FNB has designated Dallam and Hartley Counties as its assessment area (AA). These contiguous counties are located in the northwestern corner of the Texas panhandle. Dalhart is the largest city in the AA, which also includes the smaller towns of Hartley, Channing, and Texline. Demographic and economic data for the AA are listed in the following table.

| Demographic and Economic Characteristics of Dallam and Hartley County | |
|--|----------|
| <i>Population</i> | |
| Number of Families | 2,878 |
| Number of Households | 3,869 |
| <i>Geographies</i> | |
| Number of Census Tracts | 3 |
| % Low-Income Census Tracts | 0.00% |
| % Moderate-Income Census Tracts | 0.00% |
| % Middle-Income Census Tracts | 66.67% |
| % Upper-Income Census Tracts | 33.33% |
| <i>Median Family Income (MFI)</i> | |
| 2010 MFI for AA | \$43,896 |
| 2011 HUD-Adjusted MFI | \$48,600 |
| 2012 HUD-Adjusted MFI | \$49,300 |
| 2013 HUD-Adjusted MFI | \$50,500 |
| <i>Economic Indicators</i> | |
| Unemployment Rate | 3.3% |
| 2013 Median Housing Value | \$94,026 |
| % of Households Below Poverty Level | 9.18% |

Source: 2010 Census data and HUD updated income data

The AA consists of whole counties and does not arbitrarily exclude any low- or moderate-income geographies. There are three census tracts in the AA. The two census tracts in Dallam County are middle-income and the only census tract in Hartley County is upper-income.

Based on 2010 Census data, the AA has a total population of 12,765. There are 5,279 housing units in the AA, of which 64 percent are owner-occupied, 20 percent are renter-occupied, and 16 percent are vacant. About 12 percent of families are low-income, 17 percent are moderate-income, 20 percent are middle-income, and 51 percent are upper-income.

Local economic conditions are good with very low unemployment of just over 3 percent. Economic activity is centered in agricultural-related businesses. The largest non-agricultural employers within the AA include the Dallam County Independent School District, the Hilmar Cheese Plant, and Dallam County Hospital. Competition is fairly high with five other financial institutions serving the AA: First State Bank (Stratford), Dalhart Federal Savings and Loan Association SSB, and branches of Veritex Community Bank, Happy State Bank, and Wells Fargo Bank, NA. Among these, FNB ranks third in deposit market share at 18 percent.

We interviewed two community contacts for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. Both contacts stated that the biggest challenge facing the community is a shortage of housing for low- and moderate-income individuals. Neither contact identified any unmet credit needs in the community, but stated that local financial institutions are cooperative in trying to meet community credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly average net loan-to-deposit ratio from September 30, 2007 through December 31, 2013 was 72 percent. During the evaluation period, FNB's loan-to-deposit ratio ranged from a low of 58 percent at the end of 2007 to a high of 101 percent at the end of 2010. The average loan-to-deposit ratio of similarly situated banks over the same period was 70 percent. Similarly situated banks are those with total assets below \$250 million that operate in the bank's AA. The quarterly average LTD ratios for similarly situated banks in the AA are listed below.

| Loan-to-Deposit Ratios | | |
|--|---|--|
| <i>Institution</i> | <i>Total Assets (000s) as of 12/31/2013</i> | <i>Quarterly Average Net Loan-to-Deposit Ratio</i> |
| Dalhart Savings and Loan Association SSB | \$106,636 | 74.89 |
| First National Bank in Dalhart | \$68,793 | 71.87 |
| First State Bank (Stratford) | \$230,891 | 65.14 |

Source: Institution Reports of Condition from September 30, 2008 to December 31, 2013

Lending in Assessment Area

FNB originates a majority of its loans inside the AA. We reviewed 24 commercial and 30 consumer loans originated in 2012 and 2013 to assess performance under this test. We found that 89 percent by number and 83 percent by dollar amount were originated within the AA. Results by loan category are illustrated in the following table.

| Lending in AA | | | | | | | | | | |
|-----------------|--------|-------------|---------|------|-------|-------------------------|-------------|---------|------|---------|
| Number of Loans | | | | | | Dollars of Loans (000s) | | | | |
| Loan Type | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Commercial | 21 | 87.5 | 3 | 12.5 | 24 | \$4,936 | 82.5 | \$1,047 | 17.5 | \$5,983 |
| Consumer | 27 | 90.0 | 3 | 10.0 | 30 | \$443 | 88.1 | \$60 | 11.9 | \$503 |
| Totals | 48 | 88.9 | 6 | 11.1 | 54 | \$5,379 | 82.9 | \$1,107 | 17.1 | \$6,486 |

Source: Sample of loans used for CRA performance analysis

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

FNB's borrower distribution reflects an overall reasonable penetration, based on excellent penetration among businesses of different sizes and reasonable penetration among households of different income levels.

The distribution of commercial loans reflects excellent penetration among businesses of different sizes. About 86 percent of commercial loans by number and 79 percent by dollar amount were made to businesses with revenues less than \$1 million. This compares favorably to demographic data showing that 70 percent of the AA's businesses are considered small. The following table reflects the results of our sample of business loans originated in the AA.

| Borrower Distribution of Business Loans in AA – 2012-2013 | | | | |
|---|--------------|--------------|---------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unknown | Total |
| % of AA Businesses | 69.53 | 3.49 | 26.98 | 100% |
| % of Bank Loans in AA by # | 85.71 | 14.29 | - | 100% |
| % of Bank Loans in AA by \$ | 78.79 | 21.21 | - | 100% |

Source: Loan Sample; 2013 Dun and Bradstreet data

The distribution of consumer loans reflects an overall reasonable penetration among households of different income levels. The borrower distribution of consumer loans to moderate-income households (19 percent) is reasonable, as it exceeds the demographic of 14 percent. The borrower distribution of consumer loans to low-income households (11 percent) is poor, as it is slightly below the demographic of 15 percent. The following table shows the results of our sample of consumer loans.

| Borrower Distribution of Consumer Loans in AA – 2012-2013 | | | | | | | | |
|--|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| 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 | 14.9 | 11.1 | 14.1 | 18.5 | 17.7 | 37.0 | 53.3 | 33.3 |

Source: Loan Sample; 2013 U.S. Census Data

Geographic Distribution of Loans

Because no census tracts are identified as low- or moderate-income, this analysis is not meaningful.

Responses to Complaints

FNB has not received any CRA-related complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices, in any geography by the bank or in any AA by an affiliate whose loans have been considered as part of the bank’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.