



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 13, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Hebbroville
Charter Number 12995

305 N. Smith Street
Hebbroville, TX 78361

Comptroller of the Currency
San Antonio South
10001 Reunion Place Boulevard, Suite 250
San Antonio, TX 78216

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 Hebronville's (FNBH) lending performance reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas. The primary factors supporting the bank's overall ratings are as follows:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs of its assessment area (AA).
- FNBH originated a majority of the loans in our sample within its AA.
- The distribution of loans in our sample represents reasonable dispersion among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans in our sample reflects reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

We performed a small bank Community Reinvestment Act (CRA) examination of FNBH, using financial data as of December 31, 2011. The evaluation period for lending activity included loans that originated between January 1, 2009 and December 31, 2011. The LTD ratio was reviewed based on a quarterly average ratio since the previous CRA examination. Analysis of lending performance was based on a sample of 67 consumer loans, 17 residential loans, and 21 commercial loans originated during the evaluation period. We reviewed 100 percent of the commercial and residential loans originated during the evaluation period. Lending performance for consumer loans received the most weight in determining the overall rating, since they are the primary lending product.

DESCRIPTION OF INSTITUTION

FNBH is an independently owned community bank located in Hebronville, Jim Hogg County, Texas. The bank does not have any branches and remains primarily a retail bank. An automated teller machine (ATM) is located on its premises and there are not offsite ATMs. Assets totaled \$137.9 million at December 31, 2011. Loans totaled \$20.9 million and represented 15 percent of total assets. The following table depicts the bank's primary lending products by dollar and percentage:

Loan Type	(000s)	(%)
Consumer	9,401	45
Commercial	4,351	21
Residential Real Estate	3,056	15
Commercial Real Estate	2,872	14
Other	1,215	5
Total	\$20,895	100

Source: Call Report data.

Our previous CRA Performance Evaluation, dated September 5, 2006, reflected a satisfactory rating. There are no legal or other impediments that limit the bank's ability to meet the community's credit needs.

DESCRIPTION OF ASSESSMENT AREA

FNBH has designated all of Jim Hogg County, Texas as its AA. Jim Hogg County is not part of a Metropolitan Statistical Area (MSA) and consists of two census tracts (CTs); one moderate-income and one middle-income. The City of Hebbronville is divided between these two CTs. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

As of the 2000 Census, the population of the AA was 5,281, consisting of 1,381 total families. The income levels for families within the AA are as follows: low-income is 29.8 percent; moderate-income is 19.1 percent; middle-income is 23.2 percent; and upper-income is 27.9 percent. Within Jim Hogg County, 58.9 percent of the population resides within the moderate-income CT, while 41.1 percent resides within the middle-income CT. The unemployment rate of 8.1 percent is in-line with the Texas State Unemployment rate of 8.1 percent, but increased from 5.1 percent at the last CRA examination. Approximately 63.6 percent of the AA's non-farm businesses reported revenues less than \$1 million, 1.7 percent reported revenues greater than \$1 million, and 34.8 percent did not report revenue for 2011. The following table reflects additional AA demographics.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AA	
<i>Population</i>	
Number of Families	1,381
Number of Households	1,816
Number of Owner Occupied Household Units as a % of total Household Units	1,408/61%
<i>Geographies</i>	
Number of CTs	2
% Low Income Census Tracts	0
% Moderate Income Census Tracts	50
% Middle Income Census Tracts	50
% Upper Income Census Tracts	0
<i>Median Family Income (MFI)</i>	
2011 MFI for the AA	\$30,616
2011 HUD updated Statewide MFI	\$48,600
<i>Economic Indicators</i>	
Unemployment Rate	8.1%
2011 Median Housing Value	\$32,436
% of Households Below Poverty Level	28.5%

Source: U.S. Census data.

The AA economy is stable and primarily dependent upon the oil and gas industry. Hebbronville is the county seat and the major employers include governmental offices of the state and county as well as the local school district. Competition primarily consists of another local financial institution and

two branches of area banks.

We conducted an interview with a representative of the Housing Authority of Jim Hogg County (HAJHC) who disclosed information regarding the economy of the AA. There is very little demand for small business loans and employment opportunities are limited. The contact feels the bank is meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBH's LTD ratio is reasonable considering the bank's size, condition, local demographics and economic factors, as well as the AA's credit needs. The quarterly LTD ratio since the last CRA examination averaged 22 percent. The bank's quarterly LTD ratio ranged from a low of 17.2 percent at December 31, 2004, to a high of 29.3 percent at September 30, 2008. This compares to 23 percent at the previous CRA examination. FNBH's large volume of small consumer loans, while meeting a primary credit need of the community, does not significantly increase the loan-to-deposit ratio. Two institutions, Bank of South Texas and Greater South Texas Bank, have significantly higher LTD ratios; however, they banks have branches in several other geographic locations outside Jim Hogg County, including locations in MSAs. We also considered FNB Falfurrias, which is located 25 miles from Hebbronville, as a similarly situated competitor. It has one main office and operates within an AA that is demographically and economically comparable to Jim Hogg County. FNBH's average LTD ratio is comparable to this bank. The following table compares the LTD ratios for the four institutions.

Institution	Total Assets as of 12/31/11 (000s)	Average LTD ratio for the past 22 quarters
Bank of South Texas	\$76,652	80.3%
Greater South Texas Bank	\$51,520	77.8%
FNB Falfurrias	\$79,336	24.9%
FNB Hebbronville	\$137,855	22.3%

Source: Call Report data.

Lending in Assessment Area

FNBH's lending in the AA is reasonable and meets the standard for satisfactory performance. The bank extends a majority of its loans to borrowers inside its AA. As illustrated in the table below, 83.8 percent of the number of loans, and 48.2 percent of the dollar volume of loans in our sample, were made within the AA. The bank originates a significant number of small dollar consumer loans. This explains the difference between the percentage of the number of loans and the percentage of the dollar volume originated in the AA. The bank originates a small amount of loans outside its AA. However, for the most part, these are high-dollar business loans, which explains the high percentage of the dollar volume of loans originated outside the AA. The following table summarizes the sample of loans made in and out of the AA.

Lending in Jim Hogg County								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	#	%	#	%
Commercial/ Industrial	16	76.2	5	23.8	1,428	28.4	3,608	71.6
Residential	17	100	0	0	1,427	100	0	0
Consumer	55	82.1	12	17.9	644	80.2	159	19.8
Totals	88	83.8	17	16.2	3,499	48.2	3,767	51.8

Source: Loan sample.

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. This supports a satisfactory lending performance.

A review of all the residential loans originated during the review period reveals the bank’s level of residential lending to low- and moderate-income borrowers is significantly lower than the AA demographics. However, approximately 28.5 percent of the AA households live with incomes below the poverty level, which could impact their ability to qualify for mortgage loans. Additionally, 55.7 percent of the AA housing units consist of rental units, mobile homes, and vacant units. FNBH does not finance the purchase of mobile homes. The HAJHC provides rent subsidies for low-income individuals.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Jim Hogg County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential	29.76	5.90	19.12	0.00	23.17	23.50	27.95	70.60

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

The percentage of the number of loans to low- and moderate-income households significantly exceeds the AA demographics. The majority of the consumer loans originated by the bank are for small dollar amounts, which helps meet the credit needs of the community.

Table 2B - Borrower Distribution of Consumer Loans in Jim Hogg County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	33.15	38.20	14.98	32.70	18.28	18.20	33.59	10.90

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

A small business is one with gross revenues of \$1 million or less. The bank’s record of lending to

small businesses exceeds the AA demographics. Management continues to focus on providing loans that will enhance and support the local economy. The following table summarizes the results of our testing.

Borrower Distribution of Loans to Businesses in Jim Hogg County				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	63.6%	1.7%	34.7%	100%
% of Bank Loans in AA by #	81.3%	18.7%	0%	100%
% of Bank Loans in AA by \$	93.1%	6.9%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects reasonable dispersion throughout the AA and meets the standards for satisfactory performance. As noted earlier, there are no low- or upper-income CTs within the AA.

The table below reflects an excellent distribution of residential loans in the moderate-income CT. The bank’s lending exceeds the AA demographics.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Jim Hogg County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential	0.00	0.00	56.61	76.50	43.39	23.50	0.00	0.00

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

The bank’s overall level of consumer lending in moderate-income CTs is somewhat lower than AA demographics. FNBH generates a significant number of consumer loans, typically for small-dollar amounts.

Table 3B - Geographic Distribution of Consumer Loans in Jim Hogg County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	58.87	43.60	41.13	56.40	0.00	0.00

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

The bank’s overall level of commercial lending in moderate-income CTs is near to AA demographics.

Table 3A - Geographic Distribution of Loans to Businesses in Jim Hogg County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	0.00	0.00	69.54	62.50	30.46	37.50	0.00	0.00

Source: Loan sample; Dunn and Bradstreet data.

Responses to Complaints

FNBH has not received any complaints regarding its performance under the CRA since the last CRA evaluation.

Fair Lending or Other Illegal Credit Practices Review

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