



PUBLIC DISCLOSURE

January 21, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Livingston
Charter Number 6169

2121 Highway 190 West
Livingston, TX 77351

Office of the Comptroller of the Currency

1301 McKinney Street
Suite 1410
Houston, TX 77010-3031

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- or 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.

Institutions Community Reinvestment Act Rating: This institution is rated Outstanding

The First National Bank of Livingston (FNB) meets the credit needs of its assessment area (AA). The following factors support this conclusion:

- A substantial majority of loans were originated within FNB's assessment area.
- The loan-to-deposit ratio is reasonable and increasing.
- The borrower distribution of loans reflects reasonable penetration among low- and moderate-income borrowers and excellent penetration among small businesses.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- FNB is committed to their community, which is demonstrated through their excellent responsiveness to community development (CD) activities.
- There were no Community Reinvestment Act (CRA) related consumer complaints received during the current evaluation period.

Scope of Evaluation

FNB was evaluated under the Small Bank evaluation procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The lending test covers the bank's performance from January 1, 2012 through December 31, 2013. Although Community Development activities are not required for small bank performance evaluation, the bank submitted CD activities. Consideration was given to these for the time period of March 8, 2010 through January 21, 2014.

The bank's primary loan products are business, residential real estate, and consumer loans. Business and residential real estate loans are the largest products by dollar volume, while consumer loans are the largest product by number. As of December 31, 2013, business loans were 42 percent of FNB's loan portfolio, residential real estate loans were 38 percent, consumer loans were 15 percent, and agricultural loans were 5 percent. We selected a statistically valid loan sample using bank reports for loan originations in the three largest categories. The sample included 38 business loans, 40 residential loans, and 19 consumer loans.

Community Contact

One CRA-related community contact was made with a representative of a local government organization who is knowledgeable of the economic and business development environment in the community.

This contact indicated that there is need for revitalization of downtown Livingston. The community contact specifically indicated FNB offers special loan assistance to revitalize the downtown Livingston area. Job growth in the area has increased with the addition of a new hospital and community college. FNB is active in the community and provides assistance to community groups. FNB works diligently to meet the credit needs of the assessment area.

Description of Institution

FNB is a \$326 million full service community bank headquartered in Livingston, Polk County, Texas. FNB was chartered in 1902 and is fully owned by FNB Company, the holding company, which was chartered in 1997.

The bank serves its community with one main branch, two full service branch locations, and four automated teller machines (ATMs), including one standalone ATM. The main branch is located on the west side of Livingston, and the two other branches are located in downtown Livingston, and Onalaska, Texas, a popular vacation and recreation area 13 miles west of Livingston. The standalone ATM is located inside the Wal-Mart located at 1620 West Church Street, in Livingston. All locations have reasonable operating hours to meet the community needs. In addition to the full service locations, FNB has dedicated drive-up facilities at all branch locations. The bank's website, which is available 24 hours a day, offers multiple bank services, including online bill payment. FNB Livingston offers mobile banking that allows customers to view current account balances, view recent transactions, transfer funds between FNB's accounts, and receive alerts about their account.

FNB maintains the largest deposit market share in its assessment area and in Polk County with 32 percent and 45 percent of the market, respectively. The bank offers a full range of credit products within its assessment area including consumer loans, real estate loans, small business professional and executive loans, commercial loans, financing for non-profit entities, and community development loans. Business lending represents the majority of lending activity at 42 percent of the total loan portfolio. Residential 1 to 4 family loans represent 38 percent, consumer loans represent 15 percent, and agriculture loans represent 5 percent of the lending portfolio. The bank was rated "Satisfactory" at its last CRA examination dated March 8, 2010.

Please refer to the bank's Public File for additional information.

Description of Assessment Areas

The AA consists of Polk County, San Jacinto County, and Trinity County. The AA has thirteen middle-income census tracts and six moderate-income census tracts (CTs). Four tracts located in the San Jacinto County are inside Houston-Sugarland-Baytown Metropolitan Statistical Area (MSA). An analysis of the surrounding area shows that the tracts are contiguous with Polk and Trinity County. In addition, the tracts have similar characteristics to the tracts identified in Polk and Trinity County.

The population of the assessment area is 86,382, per the 2010 U.S. Census. Retired persons make up a significant portion of the area's population. Forty-two percent of households are living on social security, and 24 percent of households are living on retirement income. The ten top employers in Livingston are: 1) Livingston Independent School District (ISD) – Education; 2) Wal-Mart – Retail Sales; 3) Memorial Medical Center; 4) County of Polk – Government; 5) IAH Detention Center – Holding Facility; 6) Sam Houston Electric Co-operative – Electric Power; 7) The Bradford at Brookside – Health Care; 8) Lowe's Home Improvement Center – Retail Sales; 9) Pine Ridge Nursing Center – Health Care; and 10) The First National Bank of Livingston – Financial Institution.

Employers in outlying areas include; Texas Department of Criminal Justice; IAH Detention Facility, Corrigan-Camden ISD; Alabama Coushatta Indian Reservation; Escapees – National Recreation Vehicle Club; Onalaska ISD; and American Railroad. Lumbering, ranching and the production of oil and gas continue to be important economically to the city.

Lake Livingston, a 90 thousand acre man-made lake is located 15 miles west of Livingston. This is an important tourist attraction and an economic asset to the city. A wide range of public and commercial recreation facilities including full-service marinas, camping and motel accommodations are located along the shoreline.

New growth in the region has focused on the health-care industry as well as retiree and senior-care and small business. Continued growth is anticipated for the senior population due to the state-of-the-art hospital, new medical office buildings, nursing homes, assisted living and independent living retirement facilities, and an active-adult over-55 residential subdivision.

Housing units in the AA are mostly owner-occupied units, representing 56 percent of the housing units as reported by the 2010 U.S. Census. The weighted average of median housing cost is \$72,693. According to the 2010 U.S. Census, the weighted average of median family income for the AA is \$43,689. The HUD updated median family income as of 2013 was \$53,805.

Please refer to FNB's CRA public file for more information about the institution.

Performance Criteria

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is comparable for similarly sized and situated institutions and is reasonable given the bank's performance context. The bank's quarterly LTD ratio for the past 15 quarters averaged 35.44 percent. Fourteen banks between \$100 and \$550 million with branches in any of the surrounding counties in FNB's AA had an average LTD ratio of 57.59 percent collectively, for the same period. The LTD ratios for the peer group banks ranged from 38.06 percent to 85.93 percent. FNB's LTD has experienced an increasing trend throughout the majority of the review period. As of March 2012, the ratio was 34.62 percent and it has increased to 37.4 percent as of February 2014.

FNB Livingston's deposits include \$11.5 million in public funds, which represents 4 percent of total deposits. In addition, FNB's AA is comprised of 16,278 people over age 65, which represents 19 percent of the population in the AA. With continued growth in the retirement community, deposit growth substantially outpaced loan growth.

Lending in Assessment Area

The bank originates a substantial majority of loans within its assessment area. The analysis included 97 total loans including residential real estate, commercial, and consumer. Eighty-three percent of the real estate loans, 97 percent of the commercial loans, and 89 percent of the consumer loans we reviewed were made in the bank's assessment area. Out of the 97 loans reviewed, 90 percent were in the bank's assessment area. Performance in each loan category is shown in the following table:

Lending in Livingston Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential R/E	33	83	7	17	40	\$3,149	71	\$1,279	29	\$4,428
Commercial	37	97	1	3	38	\$4,812	99	\$55	1	\$4,867
Consumer	17	89	2	11	19	\$177	70	\$75	30	\$252
Totals	87	90	10	10	97	\$8,138	85	\$1,409	15	\$9,547

Source: Loan Sample, U.S. Census data

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

Business lending:

Overall, the distribution of small business loans reflects excellent penetration to businesses of different sizes. We compared the bank’s loan originations to information about the size of businesses for the AA according to Dunn & Bradstreet information, updated for 2013.

As of December 31, 2013, FNB’s loan portfolio consisted of 42 percent business loans. Of the 38 business loans we sampled, 81 percent were made to small businesses. This exceeds the standards for satisfactory performance, as compared to Dunn and Bradstreet data. This data reflects 73 percent of area businesses had gross annual revenues of \$1 million or less. According to Dunn and Bradstreet data, in 2013 24.5 percent of businesses in the AA did not report gross annual revenues.

The following table displays FNB’s lending to businesses of different sizes based on a sample of 2012-2013 loan originations for commercial loans.

Borrower Distribution of Loans to Businesses in Livingston Assessment Area				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73.18%	2.28%	24.54%	100%
% of Bank Loans in AA by #	81.08%	18.92%		100%
% of Bank Loans in AA by \$	66.90%	33.10%		100%

Source: loan sample; Dunn and Bradstreet data for 2013

Consumer Loans:

The level of lending to consumer borrowers of different income levels reflects reasonable penetration. We analyzed consumer lending using borrower income compared to the percentage of median household income levels according to 2010 U.S. Census information. According to the U.S. Census, the median household income for FNB’s AA is \$37,876.

The bank’s performance is below the characteristics of the AA for lending to low-income borrowers; however, performance is near to the characteristics in lending to moderate-income borrowers. A low-income household in this AA has income up to \$18,930 annually. We considered the level of difficulty for the bank to originate loans to households with incomes at or below this level, and concluded overall performance was reasonable. The bank’s performance is depicted in the table on the next page.

Borrower Distribution of Consumer Loans in Livingston Assessment Area								
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	29.28	11.76	18.00	11.76	20.60	23.53	32.13	52.94

Source: Loan sample; U.S. census data

In addition, FNB’s commitment to service the community is reflected in volume of loans made to consumers in 2012 and 2013. Internal reports indicate the bank originated 1,010 consumer loans totaling \$2,384 million or 2.6 percent of the loan portfolio in 2012. In 2013, FNB originated 1,358 consumer loans totaling \$3,018 million or 3.1 percent of the loan portfolio. These loans were originated for less than \$5,000.

Residential Real Estate Lending:

The distribution of residential real estate loans reflects a reasonable penetration among borrowers of different incomes considering the demographics, bank’s products, and FNB’s limited lending opportunities for long term fixed rate mortgages. We analyzed residential real estate lending using borrower income compared to the percentage of families by median family income levels according to the U.S. Census information.

The table below shows the bank’s performance is below the characteristics of the AA. However, management informed us that the demand in this area is for fixed rate mortgages with longer terms, and the bank only offers a variable rate real estate product. Bank management indicated there is heavy competition in the local market for residential loans. However, FNB reaches out to local Realtors on a monthly basis to inquire about the need for adjustable rate mortgage loans. For borrowers seeking a 15 to 30 year fixed rate residential real estate loan, the bank provides a referral to Commercial Bank, a permanent lender. Management informed us that although the majority of customers are interested in long term financing arrangements, they do have customers who choose the variable rate product. Generally, terms are limited to a 2 percent rate increase over a 3-year period and a max of a 4 percent rate increase over the term of the loan.

Borrower Distribution of Residential Real Estate Loans in Livingston Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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 R/E	26.54	3.03	21.85	6.06	20.99	15.15	30.63	75.76

Source: Loan sample; U.S. census data

Geographic Distribution of Loans

The overall geographic distribution of loans to the banks AA is excellent. The Polk, Trinity, and San Jacinto County AA consist of six moderate-income CTs, and thirteen middle-income CTs. Trinity County contains five middle-income CTs. San Jacinto County contains two middle-income CTs and two moderate-income CTs. Polk County contains six middle-income CTs and four moderate-income CTs. There are no low-income CTs in the bank’s AAs. Our review included an analysis of the geographic location of business, residential real estate, and consumer loans originated from January 1, 2012 through December 31, 2013. Our review also included loans originated in CTs designated as distressed by the Federal Financial Institutions Examination Council (FFIEC). Five middle-income CTs in Trinity County and the six middle-income CTs in Polk County are distressed based on poverty level. Our review did not reveal any conspicuous gaps in lending in the AA.

Performance in the Polk/Trinity/San Jacinto AA

Our analysis revealed excellent dispersion throughout the bank’s AA. Based on our sample of 97 loans consisting of residential real estate, commercial, and consumer, 82 percent were made within Polk County, which consists of six distressed middle-income CTs and four moderate-income tracts. In addition, our sample showed 2 percent of the loans were made within Trinity County, which consists of five distressed middle-income tracts, and 10% of sampled loans were made in San Jacinto County, which consists of two middle-income CTs and two moderate-income CTs.

The geographic distribution of loans to businesses exceeds the characteristics of the AA for loan originations in the moderate-income CTs and shows excellent dispersion. The bank’s performance is depicted in the following table:

Geographic Distribution of Loans to Businesses in Livingston Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Commercial	0.00	0.00	30.76	40.54	69.24	59.46	0.00	0.00

Source: Loan sample; U.S. Census data

Consumer loan originations in the moderate-income CTs exceed the characteristics of the AA and again show excellent dispersion. The bank’s performance is depicted in the following table:

Geographic Distribution of Consumer Loans in Livingston Assessment Area								
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	31.99	47.06	68.01	52.94	0.00	0.00

Source: Loan sample; U.S. Census data

Residential loan originations in the moderate-income CTs are near the ratio to the characteristics of the AA and indicate reasonable dispersion. The bank’s performance is depicted in the following table:

Geographic Distribution of Residential Real Estate Loans in Livingston Assessment Area								
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 R/E	0.00	0.00	31.01	27.27	68.99	72.73	0.00	0.00

Source: Loan sample; U.S. Census data

Community Development Test

Community Development Loans

We identified two community development loans during our examination. Both of the loans were originated in 2012. The first loan was made to Habitat for Humanity of Polk County in the amount \$40,000 to construct affordable housing. The second loan was for \$30,000 for the repair and improvement to a 5-unit apartment, which provides housing to low-or moderate-income families.

Community Development Services

FNB has an excellent record of meeting the needs of the community through community development activities.

The following is a listing of the bank's more notable community development activities since the last performance evaluation:

- Annual donations were made to several local charities and organizations that are involved in activities that emphasize community development. Many of the donations have gone to national organizations such as the Boy's and Girl's club, with a mission to enable young people in need. Many of the young people that are helped by the organization qualify as low-to-moderate-income families. Another organization is the Habitat for Humanity, which promote decent, affordable housing for low-or moderate-income families. In addition, the bank allows the Habitat for Humanity to office in the bank free of charge.
- During the evaluation period, FNB assisted with economic development with donations totaling \$100 thousand to help build a community college in the area.
- FNB donated money to an organization to pay their utility bills. This organization provides clothes, shoes, and school supplies to children of low-to-moderate-income families in Polk County. This organization served more than 3,000 children in the past year.
- Two FNB bank employees provide bookkeeping services for the Salvation Army, which helps low-or moderate-income families.
- An FNB employee serves as the Secretary of a local welfare board, which collects clothing and school supplies to assist anyone on welfare.
- FNB employees have been involved in education training by visiting classes and teaching students about banking careers, bank services, checking/savings accounts, loans, credit applications, and credit reports. In addition, FNB provided training to an Indian Reservation on how to apply for credit, the importance of establishing and maintaining credit, how to restore credit and cure existing credit issues, how to take care of your financial needs, auto loans, personal loans, home loans, and business loans.

Responses to Complaints

The bank did not receive any complaints related to CRA during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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