



PUBLIC DISCLOSURE

June 2, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Trenton
Charter Number 5737

106 Hamilton Street
Trenton, TX 75490

Office of the Comptroller of the Currency
Dallas Field Office
225 E. John Carpenter Freeway, Suite 500
Irving, TX 75062

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.

First National Bank of Trenton (FNBT) has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- A majority of FNBT's loans were originated within the assessment area (AA) using performance context.
- The loan-to-deposit ratio is reasonable considering performance context and averaged 68 percent during the evaluation period.
- FNBT's overall distribution of home mortgage products to low- and moderate-income (LMI) families is reasonable when considering performance context.
- FNBT's distribution of loans to businesses with gross revenues of less than \$1 million and consumer lending reflects excellent penetration.
- No consumer complaints regarding FNBT's CRA performance were received during this evaluation period.

SCOPE OF EXAMINATION

FNBT qualifies as a Small Bank under the CRA regulation. Thus, this CRA performance evaluation only includes the Lending Test. The Lending Test evaluates the bank's record of helping to meet the credit needs of its AAs through its lending activities. The last CRA performance evaluation was conducted as of June 8, 2007 and covered the time period from April 7, 2003 through March 31, 2007.

At this CRA review, the evaluation under the Lending Test covers loans originated from January 1, 2012 through March 31, 2014 for the random sample review. We assessed performance under the Lending Test through a review of sampled portfolio residential, consumer, and commercial loans in the AA for the 2010 census period. We also used Home Mortgage Disclosure Act (HMDA) data for loans in 2012 and 2013 to review home mortgage lending activities. The bank's independent auditor conducts an independent audit of HMDA reportable loans annually. We reviewed the work papers and found the integrity of HMDA data to be satisfactory.

A majority of HMDA loans reported are loans sold in the secondary market from the bank's Secondary Mortgage Program (SMP). Therefore, lending in the AA and the borrower and geographic analyses reflects lending that does not benefit the primary AA of the bank. Our focus was on the review of portfolio residential, consumer and commercial loans. Portfolio residential loans consist of residential mortgage loans the bank maintains on its balance sheet, and thus provides a more representative sample of lending in the AA.

FNBT has delineated one AA with a total of 26 census tracts. The AA consists of Fannin County and portions of Hunt, Collin, and Grayson Counties. We conducted a full scope review of the lending activities in the AA.

DESCRIPTION OF INSTITUTION

FNBT is a community bank headquartered in Trenton, Texas, which is located in Fannin County. FNBT is a full-service community bank offering traditional loan and deposit products and services to individuals and businesses. FNBT was established in 1901 and has grown to over \$151 million in total assets as of March 31, 2014. The main office is located at 106 Hamilton Street, Trenton, Texas. In addition to its main office, FNBT operates four full-service branches in the Texas cities of Bonham, Leonard, Melissa and Farmersville.

The main office in Trenton is located in a middle-income census tract, along with the Bonham, Melissa, and Farmersville locations. The Leonard location is in an upper-income census tract. FNBT has not opened or closed any branches during this evaluation period. FNBT also offers internet banking services and full-service branches. The bank has an ATM facility at each branch location. Hours of operation vary at each location with all but the Leonard location having Saturday hours.

The bank is 100 percent owned by the holding company, Trenton Bankshares, Inc. The holding company does not have an impact on the bank's CRA rating. FNBT operates a line of business known as the Secondary Mortgage Program (SMP) that is designed to service the needs of customers seeking to obtain single-family residential real estate mortgages. SMP loans are made to borrowers in the states of Texas, New Mexico, Oklahoma, Arkansas, Louisiana, Colorado, Utah, Minnesota, South Dakota, Wyoming and North Dakota. SMP loans are held for short periods of time, typically 25 days or less, before resale into the secondary mortgage market. The SMP is considered in this CRA Performance Evaluation but is not given as much weight as traditional lending activities that remain on the bank's balance sheet through maturity because of the regional and national lending nature of secondary mortgage lending programs. There are no legal, financial, or other factors impeding the bank's ability to help meet the credit and community development needs in its AA.

FNBT offers a variety of credit products including commercial real estate, commercial, consumer, residential, and small business loans. The bank's business strategy focuses on residential real estate lending for sale into the secondary market, commercial and commercial real estate lending, construction and development, and consumer lending. The bank offers deposits products such as checking, savings, NOW, money market and time deposit accounts.

FNBT reported total assets of \$151 million and total liabilities of \$135 million as of March 31, 2014. Total loans of \$65 million represent 43 percent of total assets. A summary of the loan portfolio is reflected in the table below:

Loan Portfolio Composition as of March 31, 2014		
Loan Category	\$(000)	% Total
Residential Real Estate	\$39,554	63%
Commercial, including Real Estate	\$10,292	16%
Construction & Development	\$9,298	14%
Farmland, including Real Estate	\$3,587	5%
Consumer	\$1,299	1%
All Other Loans	\$1,221	1%
Total	\$65,251	100%

Source: The Federal Financial Institutions Examination Council's (FFIEC) Consolidated Reports of Condition and Income (Call Report) data gathered from March 31, 2014.

FNBT's identified assessment area is highly competitive. Competition from other financial institutions is above average and increasing. The primary competition consists of other state and national financial institutions, credit unions, and branch facilities of large regional and national institutions. Much of the competition is highly visible and offers very competitive rates on loans and deposits.

FNBT received an overall rating of "Outstanding" during its previous CRA performance evaluation dated June 2007, using Small Bank CRA Procedures.

DESCRIPTION OF ASSESSMENT AREA(S)

FNBT has delineated one AA with a total of 26 census tracts (CTs). The AA consists of Fannin County (9 CTs) and portions of Hunt (2 CTs), Collin (10 CTs), and Grayson (5 CTs) Counties. We conducted a full scope review of the lending activities in the AA.

The AA is comprised of zero low-income, one moderate-income, nineteen middle-income, and six upper-income census tracts. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies. Specific demographic and economic data for this area is listed below:

Demographic and Economic Characteristics of Assessment Area	
Population	
Total Population	128,706
Number of Families	33,404
Number of Households	43,227
Geographies	
Number of Census Tracts	26
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	3.85%
% Middle-Income Census Tracts	73.08%
% Upper-Income Census Tracts	23.08%
Median Family Income (MFI)	
2008 MFI for AA	\$58,906
2011 HUD-Adjusted MFI	\$61,192
Economic Indicators	
Unemployment Rate (Fannin County)	8.2%
% Households Below Poverty Level	10.20%

Derived from the 2010 Census Bureau data and 2013 HUD data.

The largest employers in the AA consist of county governments, school systems, and hospitals. There are a limited number of industrial companies in the AA. Based on business demographic data, there are 10,674 businesses in the AA. Of these businesses, 77 percent reported gross annual revenue less than \$1 million and 2 percent reported gross annual revenue equal to or greater than \$1 million. Because reporting is voluntary, 21 percent of the businesses did not report revenues.

Based on demographic data, the AA has a total population of 128,706. There are 49,280 housing units in the AA, of which 72 percent are owner-occupied, 16 percent are renter-occupied, and 12 percent are vacant. Approximately zero percent of the families in the AA are considered low-income. Moderate-income families approximate 4 percent of the population, middle-income families total 73 percent, and upper-income families comprise 23 percent of the population.

We conducted one onsite community contact and reviewed other relevant timely local community contacts from the OCC database. The contacts disclosed that there are no significant gaps in local financial institutions meeting the credit needs of the AA. The primary credit needs identified include financing for affordable housing and other residential mortgage lending, small business loans in support of economic development, and consumer loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNBT's performance under the Lending Test is **Satisfactory**. We focused our review on the following primary lending products originated since the previous CRA

performance evaluation: portfolio residential real estate, commercial, and consumer loans. We reviewed a random sample of 20 loans in each of these categories.

In our analysis, we also included all HMDA-reported residential real estate loans originated between January 1, 2012 and December 31, 2013. However, we did not place much weight on our analysis of HMDA loans because the majority of these loans were originated through the bank's Secondary Mortgage Program (SMP). The sole purpose of this line of business is to originate and sell residential mortgage loans into the secondary market.

Loan-to-Deposit Ratio

Given the bank's size, financial condition, and AA credit needs, the bank's loan-to-deposit (LTD) ratio meets the standard for satisfactory performance. During the evaluation period, FNBT's LTD ratio ranged from a low of 57 percent to a high of 92 percent with an average of 68 percent compared to a 71 percent average for local competitors. The institutions' size and average LTD ratio are detailed in the following table:

Financial Institution	Total Assets As of 12/31/2013 \$(000)	Average LTD Ratio
First National Bank of Trenton	152,303	68%
Vision Bank – Texas	178,903	77%
Texas Star Bank	321,099	83%
Fannin Bank	77,096	64%
The First Bank of Celeste	40,752	59%
Average LTV Ratio (All Peers):		71%

Source: *The Federal Financial Institutions Examination Council's (FFIEC) Consolidated Reports of Condition and Income (Call Report) data gathered from June 30, 2007 to December 31, 2013.*

Lending in Assessment Area

FNBT's lending in its AA meets the standard for satisfactory performance, when performance context issues are considered. Although a substantial majority of HMDA loans were originated outside of the AA from 2012 to 2013, this can be directly attributed to the mission of the bank's SMP. The mission of the SMP is to originate residential real estate loans over a wide geographic area for sale on the secondary market. Thus, we found that aggregate HMDA lending did not accurately represent lending in the AA for the bank's portfolio residential loans (i.e., loans retained on the bank's balance sheet). For this reason, we randomly sampled portfolio residential real estate loans to ascertain assessment area lending for loans the bank retains in its loan portfolio. Our findings reflect that the majority of the bank's portfolio loans were made within the AA during the evaluation period. The following table details the bank's lending within the AAs by number and dollar amount of loans:

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	64	4.31	1,422	95.69	1,486	8,342	3.04	266,295	96.96	274,637
Home Improvement	56	77.78	16	22.22	72	1,939	50.55	1,897	49.45	3,836
Refinance	89	8.76	927	91.24	1,016	12,819	6.22	193,342	93.78	206,161
HMDA Loans	209	8.12	2,365	91.88	2,574	23,100	4.77	461,534	95.23	484,634
Commercial	19	95.00	1	5.00	20	514	86.65	79	13.35	593
Portfolio Real Estate	19	95.00	1	5.00	20	2,018	93.56	139	6.44	2,157
Consumer	19	95.00	1	5.00	20	182	98.37	3	1.62	185
Portfolio Loans	57	95.00	3	5.00	60	2,714	92.47	221	7.53	2,935

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

FNBT's lending to borrowers of different incomes and businesses of different sizes meets the standard for satisfactory performance. The distribution of loans reflects a reasonable penetration in the AA. Portfolio residential real estate loans were given the most weight in the analysis since they are the primary lending product held on balance sheet by the bank. Consumer and small business lending products were also reviewed but given less weight given their smaller balances.

As discussed earlier, aggregate HMDA-reported data is not illustrative of portfolio lending performance because HMDA data is concentrated in SMP loans with an originate-to-sell business model. There is no significant disparity in lending to individuals of different income levels or businesses of different sizes.

Portfolio Residential Real Estate Loans

The distribution of home loans to low-to-moderate income (LMI) borrowers is in line with the comparator and reflects reasonable penetration among borrowers of different income levels. In the AA, low-income families represent 18.20 percent of total families while the bank's home purchase loans to low-income families represent just 5.00 percent of sampled home purchase loans. However, the bank had excellent penetration for home purchase loans to moderate-income borrowers. Thirty percent of sampled home purchase loans were made to moderate-income families compared to moderate-income families in the AA of 16.59 percent. In aggregate, 35 percent of sampled home purchase loans were made to LMI borrowers compared to LMI families in the AA representing 35 percent of total families. The following table shows the distribution of home loan products among borrowers of different income levels in the AA:

Table 2 - Borrower Distribution of Portfolio Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential Home Purchase	18.20	5.00	16.59	30.00	22.11	40.00	43.10	25.00

Source: Loan Samples, US Census Data

Commercial Loans

FNBTs distribution of loans to small businesses with revenues of \$1 million or less reflects excellent penetration and meets the standard for outstanding performance. We reviewed 20 commercial loans in the AA originated between January 1, 2012 and December 31, 2013. According to data from Dunn and Bradstreet, 74.37 percent of businesses in the AA generated less than \$1 million in revenue. Our sample found that 100 percent of the number of loans and 100 percent of the dollar amount of loans to businesses originated during the sampling period were made to small businesses. The following table shows the distribution of commercial loans among different sized businesses in the AA:

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	74.37	2.33	23.30	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

Source: Loan Samples, Dunn and Bradstreet

Consumer Loans

FNBT's distribution of consumer loans to households of different incomes reflects an excellent penetration and meets the standard for outstanding performance. Our sample included 20 consumer loans in the AA. While 19.81 percent of households in the AA are considered low-income, 40 percent of the number of loans were made to low-income borrowers. Moderate-income households account for 15.34 percent of the households in the AA. Our sample reflected that 35 percent of the number of loans made were to moderate-income borrowers. The table below shows the distribution of consumer loans in the AA:

Table 2B - Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	19.81	40.00	15.34	35.00	17.46	10.00	47.39	15.00

Geographic Distribution of Loans

A meaningful analysis of the geographic distribution of loans could not be performed because there are no low- and only one moderate-income census tracts within the AA.

Responses to Complaints

There have been no consumer complaints related to FNBT’s CRA performance during the evaluation period.

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.