



PUBLIC DISCLOSURE

November 04, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Bellville
Charter Number 4241

100 East Main Street Bellville, TX 77418

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- 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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

The First National Bank of Bellville (FNB or FNB Bellville) has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- A majority of lending is inside the assessment area (AA) by number and dollar amount of loans originated and purchased. Of the number of business and residential loans originated/purchased in the evaluation period, 80.72 percent by number were within the AA.
- The overall distribution of loans reflects reasonable penetration of borrowers of different income levels and businesses of different sizes.
- The overall geographic distribution of loans reflects excellent dispersion to low- and moderate-income (LMI) census tracts (CTs) in the bank's AA.
- The bank's community development (CD) activities demonstrate excellent responsiveness to community development needs in its AA.

Scope of Examination

We completed a full-scope review of FNB's Community Reinvestment Act (CRA) activities in its AA. FNB was evaluated under the Intermediate Small Bank (ISB) examination procedures, which include a lending test and a CD test. The lending test evaluates the bank's record of meeting the credit needs of the bank's AA through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through qualified CD lending, investments and donations, and services.

Prior to this examination cycle, FNB was subject to Small Bank CRA requirements. This exam cycle, the bank became an Intermediate Small Bank (ISB) and is subject to the CD Test along with the Lending Test. As an ISB, management is not required to collection and report information on business lending. We completed a data integrity review in July 2013 to determine the accuracy of the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) to be used at this evaluation. The review deemed the HMDA LAR to be reliable.

FNB's primary lending products are business financing consisting of loans to small and medium size businesses, and residential mortgage loans consisting of 1-4 family residential owner-occupied loans. The Lending Test for FNB covered the time frame from January 1, 2011 through December 31, 2012 for business loans and all originated 1-4 family residential owner-occupied loans for the same period. We selected a statistically valid sample of 60 business loans. For residential mortgage loans, we used all of the loans originated and reported on the HMDA LAR, which consisted of 106 loans

in number and \$11.9 million by dollar amount. For the CD Test, our review included all CD loans, investments and donations, and services since the date of the last CRA examination of October 27, 2008, through the date of this examination, November 4, 2013.

Description of Institution

FNB is a full-service community bank headquartered at 100 East Main Street in Bellville, Texas. FNB is a wholly-owned subsidiary of Industry Bancshares, Inc. (IBI), a multi-bank holding company. Affiliated banks owned by IBI include Industry State Bank, Fayetteville Bank, Citizen's State Bank, and First National Bank of Shiner. The bank has a branch located at 31384 FM 2920 in Waller, Texas. FNB offers a variety of commercial and retail services, Automated Teller Machines (ATMs), Saturday services, and drive through services are offered at both branches. Banking hours are reasonable with each branch having lobby hours of 9:00 am to 4:00 pm Monday through Thursday, 7:30 am to 5:30 pm on Friday, and 9:00 to 12:00 pm on Saturday. FNB also has an ATM located at 730 Meyer in Sealy, Texas.

As of June 30, 2013, total assets were \$484 million and the Tier One Leverage Capital ratio was 9.19 percent. The bank's primary loan products are business loans and residential real estate loans. Business financing represents 29.59 percent by dollar amount and 12.74 percent by number. Residential real estate financing represented 38.79 percent of the loan portfolio by dollar amount and 23.73 percent by number. Consumer loans were high in number (33.36 percent) but represented only 5.60 percent by dollar amount.

There are no legal or financial impediments to FNB's ability to meet the credit and community development needs of its AAs. FNB was rated "outstanding" at its last CRA examination dated October 27, 2008.

Description of Assessment Area(S)

FNB Bellville has four contiguous AAs in Texas. The bank's AAs include 103 census tracts (CTs) in parts of Austin, Grimes, northwest portion of Harris and Waller counties. All AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income CTs. Exclusion of CTs was based on the area being heavy farmland or CTs that have intense banking completion. The Austin and Grimes AAs do not currently include any low-income CTs.

Austin County

Austin County is located in East Central Texas and is one of 13 counties in the Gulf Coast Region. The county is comprised of 7 census tracts (CTs), of which none are located in low-income CTs, 2 are in moderate-income CTs (29%), 4 are in middle-income CTs (57%) and 1 in an upper-income CT (14%). Austin County's 2012 population estimate was 28,618. Bellville is the county seat. Other cities include Sealy

and Wallis. Austin County is the home of Stephen F. Austin State Park. The manufacturing, trade, service, and local government sectors fuel county employment. Major employers include Austin County, Bellville Independent School District, Tesco Industries and Walmart. The median household income in 2011 was \$52,510 and the average unemployment rate in Austin County for 2012 was 6.0 percent. The main office of FNB and a stand-alone full service ATM are located in the county.

There is much banking competition within Austin County. According to the June 30, 2013 FDIC Market Share Report, there were approximately 10 financial institutions operating 13 branches in Austin County. Bank competitors include Austin County State Bank, Citizens State Bank, and Industry State Bank.

Grimes County

Grimes County is comprised of 7 census tracts (CTs), of which none are located in low-income CTs, 2 are in moderate-income CTs (29%), 3 are in middle-income CTs (43%), 1 in an upper-income CT (14%) and 1 unknown income tract (14%). Grimes County's 2012 population estimate was 26,783. Anderson is the county seat. Other cities include Navasota, Bédias and Iola. Major employers include the Anderson- Shiro Consolidated Independent School District, Grimes County, and the Navasota Independent School District. Agriculture continues to be a major part of the area's economic base. The median household income in 2011 was \$40,509 and the average unemployment rate in Grimes County for 2012 was 6.5 percent.

Banking competition in the Grimes County AA is intense. According to the June 30, 2013 FDIC Market Share Report, there were approximately 8 financial institutions operating 8 branches in Grimes County. The three largest competitors include The First National Bank of Anderson, First State Bank of Bédias, and Prosperity Bank.

Northwest Harris County

Harris County is one of 13 counties in the Gulf Coast Region. The bank's assessment area (AA) include 90 census tracts (CTs) in northwest Harris County, of which 1 is located in a low-income CT (1%), 4 in moderate-income CTs (5%), 28 in middle-income CTs (31%) and 57 in upper-income CTs (63%). Harris County's 2012 population estimate was 4.3 million, the largest county in Texas by population. Houston is the county seat. Harris County is home of Houston, the largest city in Texas, and the fourth largest in the nation. Other cities include Pasadena, Baytown and Bellaire.

The manufacturing, trade, service, local government, transportation and warehousing and construction sectors fuel county employment. Major employers include Administaff, City of Houston, Harris County, Exxon Mobil, Cypress Fairbanks and Houston Independent School Districts, United Airlines, and Memorial Hermann Healthcare System. The median household income in 2011 was \$52,675 and the average unemployment rate in Harris County for 2012 was 6.8 percent.

Banking competition in the Harris County AA is intense. According to the June 30, 2013 FDIC Market Share Report, there were approximately 86 financial institutions operating

1,032 branches in Harris County. The five largest competitors in Harris County include JP Morgan Chase Bank, National Association (N.A), Bank of America, N.A., Wells Fargo Bank, N.A., Amegy Bank, N.A., and Compass Bank.

Waller County

Waller County is located in East Central Texas and is one of 13 counties in the Gulf Coast Region. The county is comprised of 6 census tracts (CTs), of which 1 is located in a low-income CT (17%), 2 are in moderate-income CTs (33%), 2 are in middle-income CTs (33%) and 1 in an upper-income CT (17%). Waller County's 2012 population estimate was 44,357. Hempstead is the county seat. Other cities include Brookshire, Prairie View and Waller. Waller County is home to Prairie View A & M University, the second oldest university in the state of Texas. Major employers include Igloo, Prairie View A & M University, Hempstead Independent School District, and Briarwood-Brookwood Inc. The median household income in 2011 was \$50,609 and the average unemployment rate in Waller County for 2012 was 7.0 percent. FNB has a branch located in the city of Waller.

Banking competition in Waller County is intense. According to the June 30, 2013 FDIC Market Share Report, there were approximately 7 financial institutions operating 10 branches in Waller County. The three largest competitors include Prosperity Bank, Wells Fargo Bank, National Association, and Tradition Bank - Bellaire.

Please refer to FNB's CRA Public File for more information about the institution.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB Bellville's performance under the Lending Test is Satisfactory.

Loan-to-Deposit Ratio

The bank meets the standard for satisfactory performance. The LTD ratio is below average but is reasonable given the bank's performance context. FNB is the depository institution for public entities located in Austin, Waller, and Travis counties. It has a significant level of public funds that limits the opportunities to originate loans. The bank's LTD ratio averaged 39.89 percent in the 20 quarters since the prior CRA examination. The average LTD ratio for a peer group of four banks headquartered in Austin, Brazoria and Harris counties with assets between \$464 million and \$536 million was 54.88 percent, ranging from a low of 33.84 percent to a high of 64.84 percent. Excluding public funds, FNB's average LTD ratio was 51 percent as of June 30, 2013.

Lending in Assessment Area

A majority of the bank's lending is inside the AA by number and dollar amount of loans originated and purchased. During the evaluation period, 80.72 percent by number and 67.82 percent by dollar amount of business and residential home loans were originated/purchased within FNB's AA. The following table details the bank's lending inside and outside the AA by number and dollar amount:

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business Loans	47	78.33	13	21.67	60	2,876	53.06	2,544	46.94	5,420
Residential Home Loans	87	82.08	19	17.92	106	8,896	74.52	3,042	25.48	11,938
Totals	134	80.72	32	19.28	166	11,772	67.82	5,586	32.18	17,358

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

The overall distribution of loans reflects reasonable penetration of borrowers of different income levels and businesses of different sizes.

Business Loans

The bank's distribution of 2012 loans to small businesses reflects reasonable penetration of businesses with gross annual revenues of \$1 million or less. The bank's penetration by number and dollar amount of loans is somewhat lower than the level of such businesses operating in the AA, based on the 2010 Census information. The bank's performance is shown in the following table:

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74.68	2.12	23.20	100%
% of Bank Loans in AA by #	65.22	17.39	17.39	100%
% of Bank Loans in AA by \$	40.99	46.39	12.62	100%

Source: Dun and Bradstreet data; data collected by bank.

The level of the bank's 2011 loans to small businesses (businesses with gross annual revenues of \$1 million or less) performance is similar to the bank's 2012 performance, based on 2000 Census information. The bank's performance is shown in the following table:

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.38	1.68	27.94	100%
% of Bank Loans in AA by #	62.50	16.67	20.83	100%
% of Bank Loans in AA by \$	50.76	30.21	19.03	100%

Source: Dun and Bradstreet data; data collected by bank.

Residential Loans

The penetration of low-income and moderate-income families is reasonable. For residential loans originated in 2012, the bank's penetration of low-income families was 15.79 percent compared to the 2010 AA characteristic of 14.05 percent. The penetration of moderate-income families was 18.42 percent compared to the 2010 AA census characteristic of 14.00 percent. The bank's performance is shown in the following table:

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
Residential	14.05	15.79	14.00	18.42	18.07	21.05	53.89	44.74

Source: U.S. Census data; HMDA data.

The bank's 2011 residential loan performance is reasonable. The bank's penetration of low-income families was less than the 2000 census information. The penetration of moderate-income families exceeded the 2000 census information. The bank's performance is shown in the following table:

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
Residential	11.54	8.16	12.73	24.49	19.32	22.45	56.41	44.90

Source: U.S. Census data; HMDA data.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects excellent dispersion in LMI CTs in the bank's AA. The geographic distribution of both business loans and residential loans significantly exceeds the AA characteristics as discussed below.

Business Loans

The geographic distribution of loans to businesses reflects excellent dispersion throughout census tracts of different income levels. For 2012 originated and purchased business loans, 43.48 percent of the bank's loans are within moderate-income CTs compared with 6.54 percent of the AA's businesses. The bank's AA contained minimal businesses in low-income CTs. Performance in moderate-income geographies was given more weight in the analysis since those geographies contained more than twice the number of businesses as low-income geographies. This information reflects the demographics of the 2010 Census. The bank's performance is shown in the following table:

Table 3A - Geographic Distribution of 2012 Loans to Businesses in 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
Business	0.38	0.00	6.54	43.48	35.16	52.17	57.92	4.35

Source: Dun and Bradstreet data; data collected by bank.

The bank's 2011 excellent performance is similar to the 2012 performance. This information reflects the demographics of the 2000 Census information. The bank's performance is shown in the following table:

Table 3A - Geographic Distribution of 2011 Loans to Businesses in AA								
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
Small Business Loans	0.00	0	2.25	50.00	37.98	41.67	59.77	8.33

Residential Loans

The geographic distribution of residential loans reflects excellent dispersion throughout census tracts of different income levels. For 2012 residential loans, 39.47 percent of the bank's loans are within moderate-income CTs compared with 5.74 percent of the AA's owner occupied housing. The bank's AA does not contain any low-income CTs. This information reflects the demographics of the 2010 Census. The bank's performance is shown in the following table:

Table 3B - Geographic Distribution of 2012 Residential Real Estate Loans in 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	5.74	39.47	35.94	28.95	58.29	31.58

Source: U.S. Census data; HMDA data.

The bank’s 2011 excellent performance is similar to the 2012 performance. This information reflects the demographics of the 2000 Census information. The bank’s performance is shown in the following table:

Table 3B - Geographic Distribution of 2011 Residential Real Estate Loans in 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	3.62	14.29	32.13	85.71	64.25	0.00

Source: U.S. Census data; HMDA data.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

FNB’s performance under the Community Development Test is rated: “Outstanding”. The level of CD activities reflects excellent responsiveness to the needs of the community in its AAs. FNB provided \$3.7 million in qualifying CD loans and \$33.7 million in qualifying investments/donations. In addition, FNB provided qualifying financial services to nine organizations in its AA during the evaluation period. The bank’s CD activities are described below.

Number and Amount of Community Development Loans

During the evaluation period, FNB originated or refinanced 18 qualifying CD loans totaling \$3.7 million. The following list summarizes and provides examples of significant CD lending activity:

- Five loans totaling \$884 thousand to businesses that provide affordable housing for low- and moderate-income individuals.

- One loan totaling \$181 thousand to an organization that operates programs to children from low- and moderate-income families.
- Five loans totaling \$128 thousand to a business that support economic development through job creation for low- and moderate-income individuals.
- Seven loans totaling \$2.5 million to businesses that provide planned revitalization or stabilization in low- and moderate-income areas.

Number and Amount of Qualified Investments

FNB made 97 community development investments totaling \$29 million, which consisted of municipal securities for the revitalization or stabilization of designated areas affected by hurricane Rita. There were also eight investments totaling \$4 million to organizations whose activities benefit LMI individuals in the AA and \$184 thousand of a \$500 thousand commitment investment where funds were used to promote economic development by providing financing to small businesses. Additionally, there were 10 qualified monetary donations totaling \$107 thousand to organizations that provide community services targeted to LMI individuals.

Extent to Which the Bank Provides Community Development Services

FNB is involved in activities that promote CD services throughout its AA. We identified 12 CD services involving several bank officers and directors who provided financial expertise as board members of organizations that target services to LMI individuals.

In addition to the above services, FNB operates two full-service branches with drive through and ATMs and a stand-alone full-service ATM within the AA. The main office is located in an upper-income tract and the branch and stand-alone ATMs are located in middle-income tracts.

FNB offers various products and services to meet the needs of the community including checking, savings, and retirement accounts, commercial lending, certificate of deposits, wire transfers, online banking, mobile banking and direct deposit services.

Responsiveness to Community Development Needs

As part of the CRA assessment, information from a recent Waller County *Listening Session* organized by OCC personnel was reviewed to develop a better understanding of the community development needs and how financial institutions are addressing those needs in Prairie View and Waller County. Approximately 20 invited attendees including City Officials from Prairie View and Hempstead, and various area nonprofit organizations, expressed their views and concerns. Some of the various comments revealed there is a need for loans to small businesses to finance businesses in the

area, cooperation with the small business development corporation and the need for affordable housing.

This information led us to conclude that there are many opportunities for formal community development relationships at the local level. FNB originated loans to businesses that provided planned revitalization or stabilization in low-and moderate-income (LMI) areas and loans to businesses that support economic development through job creation for LMI individuals.

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.