



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**March 08, 2010**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The First National Bank of Livingston  
Charter Number 6169

2121 Highway 190 West  
Livingston, TX 77351-0000

Office of the Comptroller of the Currency

HOUSTON Field Office  
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.

**FIRST NATIONAL BANK OF LIVINGSTON  
COMMUNITY REINVESTMENT ACT RATING: This institution is rated Satisfactory.**

First National Bank of Livingston has a Satisfactory record of meeting community credit needs. This is based on the following:

- The bank's assessment area meets the requirements of the CRA regulation.
- A substantial majority of the bank's loans were originated in its assessment areas.
- The borrower distribution of loans reflects reasonable penetration among low- and moderate-income borrowers and small businesses.
- The geographic distribution of loans reflects a satisfactory dispersion throughout the assessment area.
- There have been no consumer complaints received during the current evaluation period.

**SCOPE OF EXAMINATION**

First National Bank of Livingston was evaluated under the Small Bank examination procedures which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities. The lending test covers the bank's performance from January 1, 2007 through February 28, 2010.

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.

The bank is not required to report data under the Home Mortgage Disclosure Act or the CRA regulation; however, the Board and management have elected to collect borrower information on census tracts. We tested the integrity of this information and found the census tract data to be reliable. Therefore, we used bank information to determine lending in the AA and the geographic distribution of originated loans. The bank does not collect borrower information on gross revenue and income. As a result, we selected a statistically valid sample using bank reports of loan originations in the three categories. The sample for gross revenue and income determination included a total of 23 business loans, 20 residential real estate, and 40 consumer loans originated in the AA.

**DESCRIPTION OF INSTITUTION**

The First National Bank (FNB) of Livingston is a \$254 million full service community bank headquartered in Livingston, Polk County, Texas. FNB Livingston is a wholly

owned subsidiary of FNB Co., chartered in 1902. Livingston, Texas is the county seat of Polk County. Livingston sits approximately 75 miles north of Houston and 45 miles east of Huntsville. The city spans approximately 10 miles east of Lake Livingston, which is the largest drinking water reservoir in the state of Texas.

The bank serves its community through three full service branch locations and four ATM automated teller machines (ATMs), including one stand alone ATM. The three service locations are part of one primary market area located generally in a middle-income census tract. The bank's main office is in the Westside Livingston location, with two additional branches located in downtown Livingston and Onalaska, TX; a small tourist and recreation community on Lake Livingston. The stand alone ATM is located inside the WalMart at 1620 West Church Street, in Livingston. All locations have reasonable operating hours to meet the community's needs. In addition to the full service locations, the bank has dedicated drive-up facilities at all branch locations. The bank also maintains a 24 hour internet banking service that provides online educational and financial resources.

The bank offers a full array of financial services, including standard deposit and loan products and services to meet the defined needs of the community. Commercial and residential real estate lending are the bank's primary focus. There are no legal or financial restrictions that will impede the bank's ability to help meet credit and community development needs of the AA. The bank was rated Satisfactory at its last CRA examination dated October 25, 2004.

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

## **DESCRIPTION OF ASSESSMENT AREA(S)**

FNB Livingston has two AAs described below. The Polk, Walker, Trinity Counties AA is not in a Metropolitan Statistical Area (MSA). The San Jacinto AA is part of the Houston – Sugar Land – Baytown MSA.

### **Polk/Walker/Trinity Assessment Area**

The Polk, Walker, Trinity Counties AA is comprised of nine CTs, seven middle-income CTs, one upper-income CTs, and one moderate-income CT. The CTs are combined as one AA because it is contiguous and all are located in non-MSAs. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Lake Livingston is located 15 miles west of Livingston in the East Texas Piney Woods. The lake is the largest man-constructed lake for water supply purposes located within the State of Texas. It is also a major tourist attraction to the area. It is anticipated that future growth for the region will focus on the health-care industry as well as retiree/senior-care related industry and small business. The area's major industries are timber, tourism, and oil and gas. Livingston has also experienced a diversification of the economic base with the construction of the prison by the Texas Department of Criminal

Justice. Major employers include Georgia Pacific, Texas Department of Criminal Justice, Livingston ISD, Wal-Mart Super Center, Memorial Medical Center, Polk County, CEC International (IAH Detention Facility), Alabama-Coushatta Reservation, Sam Houston Electric Coop and Onalaska Independent School District (ISD).

The population of the AA is 127,473 according to the US Census 2008 Population Estimates. The area gained approximately 11,000 residents since 2000. Retired persons make up a significant portion of the area's population. The 2000 US Census data indicates 38.1 percent of the population is living on social security and 22 percent of the population is living on retirement income. There are 16,591 owner occupied single-family housing units and 3,782 rental housing units. The median value of a single-family residence is \$52,954, and the median family income is \$45,600. The weighted average monthly gross rent is \$429. According to the Bureau of Labor Statistics, unemployment in December 2009 was 10 percent for Polk County, 8 percent for Walker County, and 9 percent for Trinity County.

Banking competition is intense. Financial service providers include other community banks, credit unions, mortgage companies, finance companies, and other financial service providers. FNB Livingston and First State Bank are the two largest financial institutions in the city of Livingston.

During the examination, we contacted a local community organization. This contact stated that local banks are fulfilling the credit needs of the community, but small business lending will always be a need in the area. The contact spoke favorably of this bank, and she specifically mentioned that the bank was extremely proactive and actively involved in the community.

### **San Jacinto Assessment Area**

The San Jacinto AA is in the Houston-Sugar Land- Baytown Metropolitan Area and includes four CTs. Of the four CTs, two are designated as moderate-income and two are middle-income. San Jacinto County is in southeastern Texas on the Trinity River. It comprises 628 square miles of East Texas timberlands of which 571 square miles is land and 57 square miles is made up of water. Approximately 60 percent of the county is in the Sam Houston National Forest. Shepherd is the largest town in San Jacinto County and is five miles north of Houston on U.S. Highway 59. The county seat is Coldspring. The economic development of San Jacinto County was attributed to the lumber industry.

The 2008 Census estimates a population of 24,882, resulting in a growth rate of 12 percent since the 2000 Census. Approximately 16.6 percent of the population is 65 years and older, which is slightly higher than the 10.2 percent for the state of Texas. Major employers include Brookshire Brothers, Coldspring Oakhurst CISD, McClains Supermarket, Measurementation Inc, People State Bank, Shepherd ISD and Sam Houston Electric Coop. However, approximately 70 percent of the population is employed outside the county in Houston or at the Texas State Penitentiary in Huntsville, Texas. According to the Bureau of Labor Statistics, unemployment rate as of December

2009 was 10.9 percent. This is a significant increase from 2008 when the unemployment rate was 5.8 percent.

The AA has mostly lower and moderate income families. Approximately 31 percent of the families are considered low-income, 23 percent are moderate-income, and the remaining 46 percent are middle-income or upper-income. According to U.S. Census Bureau information, 19.5 percent of the population is living below poverty. There are 7,062 owner occupied residences and 1,049 rental occupied residences. The weighted average median value of a single family residence was \$54,729 and the weighted average monthly gross rent was \$406. The weighted average updated median family income was \$63,800.

Banking competition is moderate. Major competitors include local financial institutions such as Bank of San Jacinto County and Peoples State Bank, which are headquartered in Coldspring, Texas.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is adequate. The ratio averaged 38.8 percent for the 20 quarters available since the last CRA evaluation. We compared this ratio to a peer group of seven banks located in the four counties of Polk, Walker, Trinity, and San Jacinto. The average quarterly ratios of this peer group ranged from a low of 41.8 percent to a high of 75.6 percent. Most of these peer banks are smaller in asset size and have a smaller percentage of public funds than FNB. The bank regularly has significant public funds deposits not available for lending. At February 28, 2010, public funds on deposit at the bank were \$6 million. In addition, competing banks in the area purchase participations from outside the market.

The bank's loan-to-deposit ratio indicates that First National Bank of Livingston extends an adequate amount of credit given its size, capacity, credit needs, and is representative of the demographics of the Polk, Walker, and Trinity Counties AA. Approximately 15.8 percent of the population in the Polk, Walker, and Trinity AA is persons over the age of 65 years, and 16.1 percent of the population is below the poverty line. In Livingston alone, 17.4 percent of the population is over the age of 65 and 22.3 percent of the population is below the poverty line. A significant portion of the bank's customer base is retirees. Internal reports indicate 45 percent or of total deposits, or \$95 million, are owned by long time depositors 65 years of age and older.

### Lending in Assessment Area

A substantial majority of loans were originated in the two AAs. Based on reliable census tract information, we used bank-provided information on all business, residential real estate, and consumer loans originated from February 1, 2007 to January 28, 2010. As shown in Table 1 below, 97 percent of the number of loans and 94.6 percent of the dollar amount of loans were originated in the AA.

Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	559	95.56	26	4.44	585	35,348	94.97	1,873	5.03	37,221
Residential R/E	272	98.55	4	1.45	276	26,639	95.24	1,330	4.76	27,969
Consumer	5,316	97.04	162	2.96	5,478	12,122	92.03	1,050	7.97	13,172
Totals	6,147	<b>96.97</b>	192	3.03	6,339	74,109	<b>94.57</b>	4,253	5.43	78,362

Source: Data collected by the bank.

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

Overall, the distribution of loans reflects a reasonable penetration among households and families of different income levels and businesses of different sizes within its AA.

To complete this analysis, we reviewed a sample of business, residential real estate, and consumer loans originated in the AA.

**Small Business Loans**

Overall, the distribution of small business loans reflects reasonable penetration to businesses of different sizes based upon an analysis of the borrowers’ gross annual revenues. We compared the bank’s loan originations to information about the size of businesses for each AA according to Dunn & Bradstreet information.

The bank’s performance in lending to small businesses with gross annual revenues of \$1 million or less in Polk, Walker, and Trinity Counties is near the characteristics of the AA for the number of loans. For dollar amount of loans, the bank’s performance is below the characteristics of the AA. The size of loans extended to those borrowers with revenues greater than \$1 million is significantly larger and had a significant effect on the percentage of the dollar amount of loans. Therefore, the number percentage was assigned a greater weight in our evaluation. The bank’s performance is shown in the following table:

<b>Table 2A - Borrower Distribution of Loans to Businesses in Polk, Walker, and Trinity Counties</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73.86	2.09	24.05	100%
% of Bank Loans by #	<b>60.00</b>	20.00	20.00	100%
% of Bank Loans by \$	<b>18.56</b>	63.77	17.67	100%

*Source: Loan sample; Dunn and Bradstreet data.*

In San Jacinto County, the bank’s performance in lending to small business with gross annual revenues of \$1 million or less is below the characteristics of the AA. However, it is important to note that there were only three business loans originated in San Jacinto County. Of these three loan originations, gross revenue information was not obtained for one loan. As a result, the number of loans originated with gross revenue equal to or less than \$1 million is reasonable. Loans by dollar amount exceed the characteristics of the AA. The bank’s performance is shown in the following table:

<b>Table 2B - Borrower Distribution of Loans to Businesses in San Jacinto County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73.53	2.26	24.21	100%
% of Bank Loans by #	<b>66.67</b>	0.00	33.33	100%
% of Bank Loans by \$	<b>97.57</b>	0.00	2.43	100%

*Source: Loan sample; Dunn and Bradstreet data.*

**Residential Real Estate**

The distribution of residential real estate loans reflects a reasonable penetration among borrowers of different incomes considering the demographics, bank’s products, and limited lending opportunities in the AA. We analyzed residential real estate lending using borrower income compared to the percentage of families by median family income levels according to U.S Census information. The 2009 median family income for the Polk, Walker, and Trinity Counties was \$45,600, and for San Jacinto County AA it was \$63,800.

In Polk, Walker, and Trinity Counties, the bank’s performance is below the characteristics of the AA. However, we considered 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. Individuals requesting fixed rate mortgages with longer terms are referred to Commercial Bank. The bank does originate smaller dollar mortgages with longer term financing, but these loans also have variable rates. The bank’s performance is shown in the table below:

<b>Table 2C - Borrower Distribution of Residential Real Estate Loans in Polk, Walker, Trinity Counties</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
All Types	% 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
% of Total	19.40	<b>0.00</b>	19.11	<b>6.25</b>	21.38	31.25	40.11	62.50

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

The distribution of residential real estate loans for San Jacinto County reflects a reasonable penetration given the limited opportunity for long term mortgages. Although there is no lending to low-income borrowers, the level of lending to moderate-income borrowers exceeds the characteristics of the AA. The bank’s performance is shown in the table below:

<b>Table 2D - Borrower Distribution of Residential Real Estate Loans in San Jacinto County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
All Types	% 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
% of Total	31.48	<b>0.00</b>	22.87	<b>25.00</b>	22.94	0.00	22.71	75.00

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

**Consumer**

The level of lending to borrowers of different incomes demonstrates a reasonable penetration among borrowers of different income levels. We analyzed consumer lending using borrower income compared to the percentage of households by median household income levels according to U.S Census information. The 2007 through 2009

median household income for Polk, Walker, and Trinity Counties was \$31,694, and for San Jacinto County AA it was \$32,351.

In Polk, Walker, and Trinity Counties, the bank’s performance is below the characteristics of the AA for lending to low-income households, but near the characteristics in lending to moderate-income households. A low-income household in this AA has income up to \$15,846 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. Also, the bank originates a significant amount of loans with loan amounts of \$2,050 or less to various income levels and several of them were included in our sample. The bank’s performance is shown in the following table:

<b>Table 2E - Borrower Distribution of Consumer Loans in Polk, Walker, Trinity Counties</b>								
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
% of Total	22.99	<b>0.00</b>	16.36	<b>10.00</b>	18.43	10.00	42.22	65.00

Source: Loan sample; U.S. Census data. Income not used in credit decision in 15% of the loan sample

In San Jacinto County the level of lending to borrowers of different incomes reflects a reasonable penetration of lending to borrowers of different income levels, particularly to low-income borrowers. The bank’s performance is below the characteristics of the AA for lending to moderate-income households, but meets the characteristics in lending to low-income households. The bank’s performance is shown in the following table:

<b>Table 2F - Borrower Distribution of Consumer Loans in San Jacinto County</b>								
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
% of Total	25.10	<b>20.00</b>	13.40	<b>5.00</b>	18.07	30.00	43.43	45.00

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

### Geographic Distribution of Loans

The overall geographic distribution is satisfactory given the demographics of the bank’s two AAs. The Polk, Trinity and Walker County AA consist of seven middle-income CTs, one moderate-income CT and one upper-income CT. The middle-income CTs are located in Polk County, the moderate-income CT is located in Trinity County, and the upper-income CT is located in Walker County. The San Jacinto County AA consists of two moderate-income CTs and two middle income CTs. There are no low-income CTs in either of the AAs. Our review included an analysis of the geographic location of all business, residential real estate, and consumer loans originated from January 1, 2007 through February 28, 2010. Our review also included identifying loans originated in CTs

designated as distressed by the Federal Financial Institutions Examining Council. All of the seven middle-income CTs in Polk County are designated as distressed based on the poverty level. Our review did not reveal any conspicuous gaps in lending in both AAs.

Performance in the Polk/Walker/Trinity AA

Our analysis revealed a satisfactory dispersion throughout the seven middle-income CTs in Polk County designated as distressed, and the one moderate-income CT in Trinity County. The majority of the bank's lending is made within Polk County and accounts for 99.6 percent of the geographic distribution. The loans made in Trinity County represent 0.3 percent of loans made within the AA. We placed greater reliance on the lending in Polk County, given the entire county's designation as distressed. We did not put much emphasis on the moderate-income CT given the small amount of loans originated in Trinity County. Trinity County contains only 3 percent of the population and 4 percent of the total number of families in the AA. The owner-occupied housing for this area represents only 4 percent of the total owner-occupied housing in the AA. In addition, the distribution of small businesses in this tract represents only 6 percent of the small businesses with revenues less than \$1 million in the AA. All of the loans made in Trinity County were consumer loans. Considering the amount of lending in the CTs designated as distressed, we concluded the geographic distribution of loans to businesses, residential real estate, and consumers in this AA was satisfactory.

Performance in the San Jacinto County AA

Overall, the geographic distribution of business, residential real estate, and consumer loans is satisfactory, especially considering the bank does not have a branch in San Jacinto County. The nearest branch is in Onalaska in Polk County.

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

<b>Table 3A - Geographic Distribution of Loans to Business in San Jacinto County</b>								
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
Home Purchase	0.00	<b>0.00</b>	42.34	<b>100.00</b>	57.66	0.00	0.00	0.00

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

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

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
	0.00	<b>0.00</b>	45.45	<b>33.00</b>	54.55	67.00	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:

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	<b>0.00</b>	51.81	<b>85.00</b>	48.19	15.00	0.00	0.00

Source: loan sample; U.S. Census data

### Community Development Loans

We identified three community development loans during our examination. Two of these loans were originated in 2007 to the Habitat for Humanity of Polk County. The first loan to the Habitat for Humanity was a \$30 thousand revolving line of credit for the organization’s operating expenses. The second loan was for \$150 thousand to build three houses in the Livingston area. The homes were sold to families for \$45 thousand each, with zero interest, and no closing cost. Also, we identified a loan to a church that provides charitable, social, and educational services to youth and families living below the poverty threshold of \$24,000 a year in Livingston, Polk County, and surrounding areas. The loan was originated in 2009 to provide for operating expenses.

### 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 have been made to several local charities and organizations that are involved in activities that emphasize community development. Since the last examination, a total of \$194 thousand has been donated to organizations such as: the Boys and Girls Club of Polk County, Cornerstone-The Burke Center, Polk

County Emergency Health Board, Habitat for Humanity of Polk County, Kids Free Clothing Exchange, Mannafest, Polk County Child Welfare Board, SAAFE House, CASA in the Pines, and, the Polk County College-Livingston Campus. In 2000, a \$100 thousand donation was made to the Memorial Medical Hospital in Polk, County. Two bank Officers serve on the organization's Advisory Board.

- FNB's President serves as the Financial Advisor for *Habitat for Humanity* and several other Officers serve in leadership positions with the organization. The bank's subsidiary, Polk County Title, served as the closing office for six houses in 2008 and 2009 and was instrumental in helping Habitat meet requirements imposed by the Texas Department of Housing and Community Affairs in their capacity as a co-lender. In addition, the bank provides a furnished office in the lobby of the Westside Branch, with the benefit of the lobby area, phone system and the reception of the bank employees.
- FNB's President serves as the Treasurer of *The Salvation Army*. A bank employee provides bookkeeping services. The bank also provides the organization with free banking.
- FNB pays the utility bills for *Kids Free Clothing Exchange*. Kids Free Clothing Exchange provides clothes, shoes and school supplies to low- and –moderate-income children in Polk County, serving more than 3,000 children in the past year.
- FNB donates computers and accompanying equipment to the *Livingston River of Life Women's Skills Training Center*. This service offers training to women needed in order to enter the workforce. The organization also provides life and work skills.
- FNB staff participates in the *Teach Children to Save* program, in which they visit first grade classrooms in Leggett, Onalaska, Goodrich, Big Sandy, and Livingston. They inform students on way to save and on bank products and services.
- An FNB Officer serves as the Secretary of the *Polk County Child Welfare Board*. This organization collects useable clothing items and provides assistance to anyone on welfare.

## **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**

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