



## **PUBLIC DISCLOSURE**

May 01, 2017

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

The First National Bank of Ballinger  
Charter Number 3533

911 Hutchings Avenue  
Ballinger, TX 76821

Office of the Comptroller of the Currency  
San Antonio North Field Office  
10001 Reunion Place  
Suite 250  
San Antonio, TX 78216-4165

**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 the 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 Ballinger's (FNBB) lending performance reflects satisfactory response to meeting community credit needs within its assessment area (AA). Major factors supporting this conclusion include:

- The quarterly average loan-to-deposit (LTD) ratio is reasonable.
- A substantial number of loans originated inside the assessment area (AA).
- Distribution of loans reflects reasonable penetration to businesses of different sizes.
- Geographic distribution of loans reflects reasonable dispersion.

**SCOPE OF EXAMINATION**

We evaluated FNBB's lending activities using interagency Small Bank CRA examination procedures. The evaluation covered the period from August 15, 2011, the date of the prior evaluation, through May 1, 2017, the date of the current evaluation. We identified business loans as the bank's primary loan product. We selected a total sample of 47 loans; 24 from the San Angelo MSA AA and 23 from the Runnels County AA to determine lending originated inside the AA, and used the same loans to assess borrower and geographic distribution.

**DESCRIPTION OF INSTITUTION**

FNBB, a community bank headquartered in Ballinger, Texas, is located 40 miles northeast of San Angelo and 60 miles southwest of Abilene. The bank is owned by Texas Country Bancshares, Inc., a two-bank holding company, and is affiliated through common ownership with Brady National Bank, Brady, Texas.

At March 31, 2017, FNBB reported total assets of \$151.6 million. Tier 1 capital totaled \$15 million and represented 10% of total assets. Net loans represented 74% of total deposits and 66% of total assets. As shown in the following table, business (commercial) loans comprise the majority of the loan portfolio.

<b>Loan Portfolio Summary by Loan Category</b>		
<b>As of March 31, 2017</b>		
<b>Loan Category</b>	<b>Dollar Volume Outstanding (000's)</b>	<b>% of Outstanding Dollars</b>
Commercial/Business	\$57,268	58%
Residential	\$24,779	25%
Agricultural	\$12,279	12%
Consumer	\$3,380	3%
Other	\$2,251	2%
<b>Total Loans</b>	<b>\$99,957</b>	<b>100%</b>

Source: Loan trial balance as of March 31, 2017

The bank’s main office, located in Ballinger, has a drive-through facility and an automatic teller machine (ATM). The San Angelo branch has a drive-through facility and an ATM. Neither ATM accepts deposits. FNBB also has a loan production office in Fort Worth.

The Ballinger lobby and drive-through offer convenient banking hours from Monday through Friday, while the San Angelo lobby and drive-through provide services Monday through Saturday. FNBB has a 24-hour telephone response system, online banking system, and mobile banking system, that allow customers to obtain account balance information and transfer funds. In addition, the mobile banking system allows customers to activate debit cards and submit deposits remotely.

FNBB faces normal competition from other financial institutions located in Ballinger and San Angelo. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FNBB has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder FNBB’s ability to provide credit in its AA. FNBB received a Satisfactory rating in the previous Community Reinvestment Act (CRA) evaluation dated August 15, 2011.

**DESCRIPTION OF ASSESSMENT AREA(s)**

The CRA requires financial institutions to define the AA in which it will be evaluated. FNBB has designated Runnels County and the San Angelo MSA as its AAs. These AAs meet the requirements of the regulation and do not exclude any low- and moderate-income (LMI) areas.

**Demographic and Economic Data on the Runnels County Assessment Area**

The AA is comprised of four census tracts (CTs), three designated middle-income and one designated upper-income. The AA does not include any LMI CTs. The main office is located in a middle-income CT in the city of Ballinger, the county seat. Other communities located within the county include the cities of Miles, Winters, Rowena, Lowake, Norton, and Wingate. Specific demographic data for the AA is reflected in the following table.

<b>Demographic Information – Runnels County Assessment Area</b>					
<b><i>Demographic Characteristics</i></b>	<b><i>#</i></b>	<b><i>Low</i></b>	<b><i>Moderate</i></b>	<b><i>Middle</i></b>	<b><i>Upper</i></b>
Geographies (Census Tracts)	4	0%	0%	75%	25%
Population by Geography	10,501	0%	0%	87%	13%
Owner-Occupied Housing by Geography	2,847	0%	0%	84%	16%
Business by Geography	745	0%	0%	84%	16%
Farms by Geography	200	0%	0%	62%	38%
Family Distribution by Income Level	2,903	27%	17%	17%	39%
Household Distribution by Income Level	3,953	26%	16%	19%	39%
MSA. Median Family Income (MFI) – 2010 Census		\$47,817	Avg. of Median Home Value		\$67,323
FFIEC Updated MSA MFI - 2016		\$52,800	Unemployment Rate (2016)		2%
Households Below Poverty Level		21%			

Source: U. S. Census Bureau 2010, Dunn & Bradstreet, U.S Bureau of Labor and Statistics

The local economy is based on healthcare and social assistance, manufacturing, educational services, retail, and agriculture. The largest employers in the AA include Mueller Inc., Buddy’s Plant Plus, and Dankworth Packing Co.

The June 30, 2016 FDIC Market Share Report reflects five institutions in Runnels County. FNBB ranks first with a deposit market share of almost 32% followed by Citizens State Bank with a market share of 25%.

**Demographic and Economic Data on the San Angelo MSA Assessment Area**

The San Angelo MSA is comprised of Tom Green and Irion Counties. The City of Mertzon is the county seat and the only city in Irion County, which is comprised of one upper-income CT. The City of San Angelo is the county seat for Tom Green County. Other communities within Tom Green County include: Barnhart, Carlsbad, Knickerbocker, Sherwood, Tankersley, Vancourt, Veribest, Wall, and Water Valley. Tom Green County is comprised of 25 CTs - one low-income, seven moderate-income, ten middle-income, six upper-income, and one with no income designation because it is where the San Angelo airport is located. The bank’s San Angelo branch is located in an upper-income CT. Specific demographic data for the AA is reflected in the table below.

<b>Demographic Information – San Angelo MSA Assessment Area</b>					
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low</b>	<b>Moderate</b>	<b>Middle</b>	<b>Upper</b>
Geographies (Census Tracts)	26*	4%	27%	38%	27%
Population by Geography	111,823	2%	30%	43%	25%
Owner-Occupied Housing by Geography	28,650	1%	26%	44%	29%
Business by Geography	7,121	12%	15%	44%	29%
Farms by Geography	433	6%	7%	35%	52%
Family Distribution by Income Level	28,202	22%	18%	19%	41%
Household Distribution by Income Level	42,084	23%	17%	17%	43%
MSA. Median Family Income (MFI) – 2010 Census		\$53,682	Avg. of Median Home Value		\$97,465
FFIEC Updated MSA MFI - 2016		\$59,800	Unemployment Rate (2016)		4%
Households Below Poverty Level		15%			

Source: U. S. Census Bureau 2010, Dunn & Bradstreet, U.S Bureau of Labor and Statistics  
 \* One CT (4%) does not have an income designation.

The local economy is based on healthcare and social assistance, retail trade, educational services, accommodation and food service, and public administration. The largest employers in the area include Goodfellow Air Force Base, Shannon Health System, San Angelo ISD, Angelo State University, City of San Angelo, and San Angelo Community Medical Center.

The June 30, 2016 FDIC Market Share Report reflects 15 institutions with a total of 30 offices in Tom Green County. FNBB ranks eighth with a deposit market share of almost 3%. First Financial Bank, National Association ranks first with a market share of 26% with Wells Fargo Bank, National Association ranked second with a market share of 18%.

We conducted a community contact with a local community organization to gain perspective on credit needs in the AA. The contact mentioned economic conditions have strengthened due to expansions in oil and gas, and military defense, as well as continued success in the healthcare and information technology (IT) industries. The contact also mentioned that the San Angelo MSA had the fastest paced labor force growth of any Texas MSA, as of April 2017. The contact stated there is a continued need for small business lending, specifically to start-up companies. The contact stated banks in the area operate in a more conservative manner and tend to lend more to businesses that have been established for one to two years, leaving a noticeable gap. The contact did mention that local banks do a good job lending in the agricultural sector, which makes up a sizable portion of economy around the San Angelo MSA.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNBB’s average quarterly LTD ratio since the last CRA Performance Evaluation (PE) is reasonable. During the evaluation period, the LTD ratio ranged from a low of 50% to a high of 75%, with a quarterly average of 62%. To assess FNBB’s performance, we compared its average LTD ratio with three local area banks of similar size. As reflected in the following table, the average LTD ratios for the three banks ranged from 43% to 90%. The overall quarterly average LTD ratio for the three local area banks is 59%.

INSTITUTION	ASSETS (000s) As of 12/31/2017	AVERAGE QUARTERLY LTD RATIO From 6/30/2011 to 12/31/2017
Citizens State Bank	\$118,378	90%
<i>The First National Bank of Ballinger</i>	\$151,588	62%
Ballinger National Bank	\$44,968	45%
The Security State Bank	\$53,562	43%

Source: Quarterly Call Report data from June 30, 2011 through December 31, 2

### Lending in Assessment Area

FNBB originated a substantial majority of loans inside the bank’s AA. The following table reflects the percentages, by number and dollar volume, of loans originated inside the bank’s AA.

Lending in Combined Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	39	83%	8	17%	47	\$3,279	78%	\$915	22%	\$4,194

Source: Loan trial balance and business loan sample

### Lending to Businesses of Different Sizes

FNBB’s distribution of loans to businesses of different sizes reflects reasonable penetration.

### Runnels County Assessment Area

FNBB’s lending activity in this AA reflects reasonable penetration of loans to businesses with annual revenues less than or equal to \$1 million (small businesses). As shown in the following table, the number of loans to small businesses slightly exceeds AA demographics.

<b>Borrower Distribution of Loans to Businesses in Runnels County Assessment Area</b>				
<b>Business Revenues</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unknown</b>	<b>Total</b>
% of AA Businesses	75%	4%	21%	100%
% of Bank Loans in AA by #	79%	16%	5%	100%
% of Bank Loans in AA by \$	43%	53%	4%	100%

Source: Loan sample; Dunn and Bradstreet data.

The dollar volume of loans to small businesses was impacted by three large loans of \$100 thousand or more to businesses with annual revenues greater than \$1 million. The majority of loans sampled (79%) were loans less than \$50 thousand with no loan exceeding \$200 thousand. The smaller loan size is an indicator showing FNBB’s willingness to lend to small businesses in the AA.

### San Angelo MSA Assessment Area

FNBB’s lending activity in this AA reflects reasonable penetration of loans to businesses with annual revenues less than or equal to \$1 million (small businesses). As shown in the following table, the number and dollar volume of loans to small businesses is near to AA demographics.

<b>Borrower Distribution of Loans to Businesses in San Angelo MSA Assessment Area</b>				
<b>Business Revenues</b>	<b>≤ \$1,000,000</b>	<b>&gt; \$1,000,000</b>	<b>Unknown</b>	<b>Total</b>
% of AA Businesses	76%	4%	20%	100%
% of Bank Loans in AA by #	65%	30%	5%	100%
% of Bank Loans in AA by \$	65%	34%	1%	100%

Source: Loan sample; Dunn and Bradstreet data.

The dollar volume of loans to small businesses was impacted by one large loan (\$500 thousand) to a business with annual revenues greater than \$1 million. The majority of loans sampled (85%) were loans less than \$150 thousand. The small loan size is an indicator showing FNBB’s willingness to lend to smaller businesses in the AA.

## Geographic Distribution of Loans

FNBB’s geographic distribution of loans to businesses reflects reasonable dispersion.

### Runnels County Assessment Area

Because there are no low- or moderate-income CTs in Runnels County, a meaningful geographic analysis could not be performed.

### San Angelo MSA Assessment Area

The geographic distribution of business loans reflects reasonable dispersion. As reflected in the following table, the percentage of loans to businesses in the low-income CTs is near to the percentage of businesses located in the low-income CTs. The percentage of loans to businesses in moderate-income CTs is somewhat lower than the percentage of businesses located in these CTs.

Geographic Distribution of Loans to Businesses in Runnels County Assessment Area								
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 Loans	11%	10%	16%	10%	44%	60%	29%	20%

Source: Loan sample; Dunn and Bradstreet data.

## Responses to Complaints

FNBB did not receive any complaints related to its CRA performance during the evaluation period.

## Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 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 AA 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.