



PUBLIC DISCLOSURE

June 05, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Eldorado
Charter Number 8575

100 SW Main Street
Eldorado, Texas 76936

Office of the Comptroller of the Currency
San Antonio North Field Office
10001 Reunion Place, Suite 250
San Antonio, Texas 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.

First National Bank of Eldorado's (FNBE) lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA). The major factors supporting the rating include:

- The quarterly average loan-to-deposit (LTD) ratio is reasonable.
- A substantial majority of loans, by number and dollar amount, originated inside the AA.
- The distribution of loans reflects reasonable penetration to borrowers of different income levels and to businesses of different sizes.

SCOPE OF EXAMINATION

We evaluated FNBE's lending activities using interagency Small Bank CRA procedures. We focused our evaluation on lending activity from January 1, 2015 to March 31, 2017. We analyzed lending activity during this time frame and identified business loans and residential real estate loans as the bank's primary loan products. To evaluate the distribution of loans, we used the demographics and geographies related to the 2010 Census as it applies to 2015, 2016, and 2017. We selected a sample of 20 business loans and 20 residential loans originated during the evaluation period to determine lending inside the AA, and used the same loans to assess borrower distribution.

DESCRIPTION OF INSTITUTION

FNBE, a full-service, intrastate bank headquartered in Eldorado, Texas, is located 45 miles south of San Angelo and 190 miles northwest of San Antonio. FNBE is 100% owned by Eldorado Bancshares Inc., a one-bank holding company also headquartered in Eldorado. We did not review any affiliate activities during this evaluation.

FNBE has one main office that provides lobby and drive-through services from 9:00 a.m. through 3:00 p.m. Monday through Friday. There is also a 24-hour access automatic teller machine (ATM) located in the drive-through facility. FNBE offers traditional loan and deposit products. In addition, customers can access FNBE's online banking services via its Internet website (<https://www.fnbeldorado.com>) to pay bills, check account balances, transfer funds between accounts, make loan payments, and view account transactions.

As of March 31, 2017, FNBE reported total assets of \$62.7 million and Tier 1 capital of \$7.9 million. Net loans totaled \$24 million or 38% of total assets and 44% of total deposits. The following table reflects a detailed breakdown of FNBE's loan portfolio as of March 31, 2017.

| Loan Portfolio Summary by Loan Category March 31, 2017 | | |
|---|------------------------|--------------------------|
| Loan Category | Dollar Volume \$ (000) | % of Outstanding Dollars |
| Commercial (Including Real Estate) | \$9,828 | 41% |
| Residential | \$8,226 | 35% |
| Agricultural/Farmland | \$3,542 | 15% |
| Consumer and Other Loans | \$2,173 | 9% |
| Total | \$23,769 | 100% |

Source: March 31, 2017 Call Report

There are no legal, financial, or other factors impeding FNBE’s ability to meet credit needs in its AA. Its current business strategy is to continue offering commercial and residential loans as primary loan products. The prior CRA evaluation, dated September 13, 2012, assigned an overall “Satisfactory” rating to FNBE’s lending performance.

DESCRIPTION OF ASSESSMENT AREA(s)

FNBE designated Schleicher County as its AA. Schleicher County is not part of a metropolitan statistical area and has one upper-income census tract (CT). The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The city of Eldorado, the only city in Schleicher County, is the county seat. There are also two unincorporated communities (Adams and Huldale) located in the county. As per the FDIC Market Share Report of June 30, 2016, FNBE is the only bank in Schleicher County. The following table shows pertinent demographic data for the AA.

| Demographic Information for Schleicher County Assessment Area | | | | | |
|---|----------|--------------------------------|------------|----------|---------|
| | # | % Low | % Moderate | % Middle | % Upper |
| Geographies (CTs) | 1 | 0% | 0% | 0% | 100% |
| Population by Geography | 3,461 | 0% | 0% | 0% | 100% |
| Owner Occupied Housing Units by Geography | 798 | 0% | 0% | 0% | 100% |
| Businesses by Geography | 133 | 0% | 0% | 0% | 100% |
| Farms by Geography | 20 | 0% | 0% | 0% | 100% |
| Family Distribution by Income Level | 804 | 14% | 11% | 21% | 54% |
| Household Distribution by Income Level | 989 | 15% | 11% | 14% | 60% |
| Census Median Family Income (MFI) | \$47,817 | Median Housing Value | \$67,900 | | |
| FFIEC Updated MFI: 2015 | \$52,800 | Households Below Poverty Level | 16% | | |
| FFIEC Updated MFI: 2016 | \$52,400 | Unemployment Rate | 2.61% | | |
| FFIEC Updated MFI: 2017 | \$52,400 | | | | |

Source: 2010 US Census Data and FFIEC Updated income data

Based on 2010 Census data, the AA has 1,294 housing units; 62% owner-occupied, 15% renter-occupied and 24% vacant. Major employers include the local school district, Southwest Texas Electric Corporation, and the local hospital. Of the 133 total businesses in the AA, 82% are single location businesses and 69% have fewer than four employees.

The US Bureau of Labor Statistics reports a seasonally-adjusted unemployment rate of 4.3% for the nation and a 4.8% unemployment rate for the State of Texas as of May 2017. The unemployment rate for Schleicher County (5.4%) is higher than both the national and state unemployment rates.

To gain perspective on the community and credit needs in the AA, we met with a local business person who stated that FNBE is active in the community and its development, and there are no unmet credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBE's average quarterly LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. During the evaluation period, the quarterly ratio ranged from a low of 23% to a high of 43%, with a quarterly average of 36%. To assess FNBE's performance, we compared its average quarterly LTD ratio to five similarly situated institutions. As reflected in the following table, the average quarterly LTD ratios for the five institutions ranged from 18% to 62%, no ranking is intended or implied. The overall quarterly average LTD ratio for all five institutions is 38%.

| Institution Name | Total Assets (\$000s) As of March 31, 2017 | Average Quarterly LTD Ratios As of March 31, 2017 |
|--|---|--|
| First National Bank of Mertzon | \$350,418 | 18% |
| Ozona National Bank | \$245,359 | 62% |
| Eden State Bank | \$100,571 | 30% |
| First National Bank of Eldorado | \$62,711 | 36% |
| Junction National Bank | \$60,667 | 31% |
| Menard National Bank | \$35,131 | 47% |

Source: Quarterly Call Report data from September 30, 2012 through December 31, 2016

Lending in Assessment Area

Lending in the AA is outstanding, with a substantial majority of loans originated inside the AA. The following table reflects the percentages, by number and dollar volume, of loans originated inside the AA.

| Lending in the Assessment Area | | | | | | | | | | |
|--------------------------------|-----------------|-----|---------|-----|-------|--------------------------|-----|---------|-----|---------|
| Loan Type | Number of Loans | | | | | Dollars of Loans (\$000) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Residential Loans | 16 | 80% | 4 | 20% | 20 | \$1,797 | 69% | \$794 | 31% | \$2,591 |
| Business Loans | 17 | 85% | 3 | 15% | 20 | \$1,239 | 88% | \$169 | 12% | \$1,408 |
| Total | 33 | 83% | 7 | 17% | 40 | \$3,036 | 76% | \$963 | 24% | \$3,999 |

Source: Loan Sample

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

The distribution of loans represents reasonable penetration to businesses of different sizes, and to individuals of different income levels. Business loans represented the largest percentage of the loan portfolio during the evaluation period. As such, we weighed business loan performance more heavily in our conclusion.

Business Loans

For the distribution of business loans, we compared data from our business loan sample to demographic data from Dunn & Bradstreet. As reflected in the following table, by number, 71% of the sampled loans originated to businesses with annual revenues equal to or less than \$1 million. Demographic data reflects 70% of the businesses in the AA have annual revenues equal to or less than \$1 million. The distribution of business loans reflects reasonable penetration to businesses of different sizes.

| Borrower Distribution of Business Loans in Assessment Area | | | | |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 71% | 7% | 22% | 100% |
| % of Bank Loans in AA by # | 70% | 0% | 30% | 100% |
| % of Bank Loans in AA by \$ | 81% | 0% | 19% | 100% |

Source: Loan sample; Dunn & Bradstreet data

Residential Loans

For the distribution of residential loans, we compared data from our residential loan sample to demographic data from the 2010 Census. As shown in the following table, the distribution of loans to borrower with low income is almost equal to demographic data and reflects excellent penetration. The distribution of loans to moderate-income borrowers is adequate and reflects reasonable penetration. Overall distribution to LMI borrowers is adequate and reflects reasonable penetration.

| Borrower Distribution of Residential Real Estate Loans in Assessment Area | | | | | | | | |
|---|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|
| 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 |
| Home Loans | 14% | 13% | 11% | 6% | 21% | 13% | 54% | 69% |

Source: Loan sample; US Census data

Geographic Distribution of Loans

There are no low- or moderate- income CTs in Schleicher County; an analysis of the bank's geographic distribution of loans would not be meaningful.

Responses to Complaints

FNBE did not receive 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.