



PUBLIC DISCLOSURE

January 30, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Sterling City
Charter Number 9813

602 4th Street
Sterling City, TX 76951

Office of the Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289
Suite 108
Lubbock, TX 79424-1319

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 First National Bank of Sterling City (FNB) has a reasonable quarterly average net loan-to-deposit ratio of 24.49 percent during the evaluation period.
- FNB originated a majority of its loans by number (75 percent) and dollar volume (85 percent) to businesses and individuals located within the AA.
- FNB's loan portfolio reflects an excellent penetration among businesses of different sizes and individuals of various income levels within the AA.

SCOPE OF EXAMINATION

We evaluated FNB under the small bank performance standards, which include five performance criteria: loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, geographic distribution of loans, and responses to CRA-related complaints.

To evaluate FNB's lending performance, a random sample of loans was selected based on the bank's primary loan types. Primary loan types are those products that have been originated at the highest percentage by dollar volume and/or number of loans. Primary loan products during this evaluation period consisted of commercial and consumer loans. To assess performance, we reviewed 29 commercial and 36 consumer loans originated during 2015 and 2016.

DESCRIPTION OF INSTITUTION

FNB is a \$167 million community bank headquartered in Sterling City, Texas, which is approximately 150 miles southeast of Lubbock. FNB is wholly owned subsidiary of Sterling City Bancshares, Inc., a single-bank holding company. FNB is an intrastate bank with its main office located in Sterling City, and two branches located in Garden City, Texas and Bronte, Texas.

The bank's business strategy is to provide outstanding service to meet the specific needs of individual customers and small and medium sized businesses in its markets, including agricultural businesses, commercial businesses, and consumers.

As of December 31, 2016, net loans and leases comprised 18.7 percent of total assets. The bank's primary loan products include commercial loans (by dollar volume) and consumer loans (by number). The following table shows the composition of the loan portfolio.

Outstanding Loans by Original Amount as of December 31, 2016				
<i>Loan Type</i>	<i># of Loans</i>	<i>% of #</i>	<i>\$ of Loans</i>	<i>% of \$</i>
Commercial and Commercial Real Estate	156	16	\$16,858	40
Consumer	603	63	\$7,531	18
Agricultural and Farm Land	120	13	\$12,087	28
Residential Real Estate (1-4 Family)	73	8	\$6,195	14
Total	952	100	\$42,671	100

Source: Bank Loan Trial Balance

The bank provides traditional banking services including a variety of loan and deposit accounts. Bank lobby services at the main bank and both branches are provided Monday through Friday from 9:00 AM to 3:00 PM. A drive-up facility is located at the Bronte branch and operates Monday through Friday from 8:00 AM to 3:00 PM. FNB also offers online banking at www.thefnb.com. The online banking service provides access to account information, online transfers between accounts, and bill pay services.

The bank received a Satisfactory rating at its July 28, 2010 CRA examination. FNB has no legal or financial circumstances that would impede the bank's ability to help meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

FNB has designated Sterling, Glasscock, and Coke Counties as its AA. The AA is comprised of three contiguous counties and does not arbitrarily exclude any low- or moderate-income areas. There are four census tracts in the AA. Three are middle-income, and one is upper-income. The AA has a total population of 5,689. About 14 percent of households are below the poverty level.

The unemployment rate for Sterling County is 5.0 percent, Glasscock County is 3.3 percent, and Coke County is 3.6 percent, which are similar to the state of Texas and the United States unemployment rates at 4.2 and 4.6 percent, respectively. The local economy is based on agriculture, primarily cotton farming, and livestock. Oil and gas production and wind energy are also significant economic factors. The largest non-agricultural employers include various oil and gas production and service companies and the local school districts.

Competition is moderate for both deposits and loans. In addition to FNB, one other financial institution operates within the AA. The June 30, 2016 FDIC Market Share Report shows that FNB ranks first with 79 percent of all deposits.

We contacted a local governmental office to obtain a community profile and identify opportunities for community development participation by local financial institutions. Our contact indicated that the local economy is stable and primarily driven by farming,

ranching, the oil and gas industry, and wind turbines. The local financial institutions are responsive in meeting the community’s credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB’s loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, local competition, and AA credit needs. This is based on FNB’s quarterly average net LTD ratio for the 25 quarters from September 30, 2010 through September 30, 2016 of 24.49 percent. The quarterly average net LTD ratio of four similarly situated banks ranges from 28.20 percent to 40.34 percent, and averages 35.25 percent.

Loan-to-Deposit Ratios		
<i>Institution Name</i>	<i>Total Assets \$ (000s)</i>	<i>Quarterly Average Net Loan-to-Deposit Ratio</i>
The First National Bank of Sterling City	158,315	24.49
The First National Bank of Stanton	154,458	37.78
The City National Bank of Colorado City	123,347	37.68
Texas National Bank - Sweetwater	133,877	28.20
Robert Lee State Bank	42,057	40.34

Source: Institution Reports of Condition from September 2010 to September 2016

Lending in Assessment Area

A majority of FNB’s loans, 75 percent by number and 85 percent by dollar amount, were extended to borrowers who live or operate their businesses inside the AA.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	20	69.0	9	31.0	100.00	\$2,387	86.0	\$388	14.0	100.00
Consumer	29	80.6	7	19.4	100.00	\$289	75.2	\$95	24.8	100.00
Totals	49	75.4	16	24.6	100.00	\$2,676	84.7	\$483	15.3	100.00

Source: Sample of Loans used for CRA performance analysis.

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

FNB’s loan portfolio reflects an excellent penetration among businesses of different sizes and individuals of various income levels within the AA. To perform our analysis, we reviewed revenue information for 20 commercial loans and 29 consumer loans in the AA.

The percentage of FNB commercial loans by number and dollar volume substantially exceeds the ratio of AA businesses with gross annual revenues less than or equal to \$1 million. Eighty-five percent of the number and 88 percent of the dollar volume of sampled loans were to businesses with less than or equal to \$1 million in revenue. This compares favorably to the demographic of 60 percent.

Borrower Distribution of Commercial Loans in AA				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unavailable/ Unknown</i>	<i>Total</i>
% of AA Businesses	60.27	3.24	36.49	100%
% of Bank Loans in AA by #	85.00	10.00	5.00	100%
% of Bank Loans in AA by \$	87.61	11.72	0.67	100%

Source: Loan sample; 2015 Dunn and Bradstreet data.

The percentage of FNB consumer loans by number significantly exceeds the ratio of moderate-income households and is slightly below the ratio of low-income households in the AA. FNB originated 45 percent of consumer loans by number to moderate-income households and 17 percent to low-income households, compared to the AA demographics of 18 percent and 21 percent, respectively.

Borrower Distribution of Consumer Loans in AA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>% of AA Households</i>	<i>% of Number of Loans</i>	<i>% of AA Households</i>	<i>% of Number of Loans</i>	<i>% of AA Households</i>	<i>% of Number of Loans</i>	<i>% of AA Households</i>	<i>% of Number of Loans</i>
Consumer Loans	21.36	17.24	17.61	44.83	13.92	10.34	47.11	27.59

Source: Loan Sample; 2010 U.S. Census data.

Geographic Distribution of Loans

FNB’s AA does not contain low- or moderate-income census tracts. For this reason, a geographic distribution analysis is not meaningful and was not performed.

Responses to Complaints

Neither the bank nor the OCC have received any CRA-related complaints during the evaluation period. This has a neutral effect on the bank's CRA performance.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) in determining a national bank's CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any AA, or by an affiliate whose loans have been considered as part of the bank's lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.