



## **PUBLIC DISCLOSURE**

January 16, 2018

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

Fort Hood National  
Charter Number 15606

TJ Mills Blvd, Building 109  
Fort Hood, Texas 76544

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 safe and sound operation of the institution. This evaluation is not, and should not 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.

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**OVERALL CRA RATING: This institution is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

The primary factors supporting the rating are summarized below:

- Fort Hood National Bank's (FHNB) average loan-to-deposit (LTD) ratio is reasonable when considering the performance context. Since the last CRA evaluation dated January 27, 2015, FHNB's average quarterly LTD ratio has increased significantly from 16 percent to 34 percent. At year-end 2017, the actual LTD ratio was 46 percent.
- Lending performance within the bank's designated assessment area (AA) is excellent. One hundred percent of FHNB's lending activity is within its deposit customer base AA.
- The distribution of loans by borrower income is reasonable. FHNB's consumer loan portfolio reflects excellent penetration to households of different income levels: while the distribution of residential loans to families of different income levels is reasonable.
- The distribution of consumer loans by geography is reasonable.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing).

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancing, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of

individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Description of Institution

FHNB is a privately owned, intrastate bank headquartered in Killeen, Texas. FHNB was established in 1965 to primarily serve the deposit and credit needs of military families stationed at the Fort Hood Army Base (Fort Hood). The bank is a wholly-owned subsidiary of First Community Bancshares, Inc., which owns 100 percent of FHNB and its affiliated sister bank, First National Bank Texas (FNBT), located in Killeen, Texas. Other than purchased residential loan participations, we did not consider activities of any affiliates or subsidiaries of FHNB or the holding company in this Public Evaluation.

FHNB operates seven full service locations in Texas; six on Fort Hood and one in Copperas Cove, Texas. FHNB operates 66 non-deposit automated teller machines (ATMs) on Fort Hood, two at the Killeen Airport and one in Copperas Cove. Three of the branches on Fort Hood are located in moderate-income CTs and three are located in middle-income CTs. Prior to the 2015 census update, all CTs on Fort Hood were moderate-income CTs. The seventh branch, in nearby Copperas Cove, is in a middle-income CT. The bank has not opened any new branches since the previous evaluation, but it closed the Warrior Way PX branch. FHNB relocated a branch on Clear Creek Road to the new Exchange PX, also on Clear Creek Road.

Banking hours for branch locations enhance credit availability and access to bank banking services. The new Exchange PX branch is open seven days a week, with extended hours on Fridays. Two of the bank's branches, one on Fort Hood and the Copperas Cove location, have Saturday hours from 9:00 am to 12:00 pm. FHNB customers can use all branches and ATMs of affiliate FNBT free of charge in Texas, Arizona, and New Mexico.

FHNB focuses on developing and expanding delivery channels that increase convenience and access to banking services for its military customer base. The bank's expansive ATM network, online, mobile, and call center services expand access to both deposit and credit related services beyond regular banking hours. Bank customers have access to their deposit accounts locally, nationally, and internationally through numerous ATM networks in which the bank participates. Customers may access their account information through FHNB's online banking system, mobile banking application, toll-free through customer support, and through the bank's Interactive Voice Response (IVR) system.

Since the previous evaluation period, FHNB has also added mobile check deposit services as well as emerging payment technologies such as Apple Pay, Android Pay, and Samsung Pay. In 2017, FHNB began offering person-to person payment services free of charge. The person-to-person payment service can be initiated through online banking or through a mobile device. In December 2017, FHNB launched a new payment service, the Master pass Application, which allows customers to add payment card information to an application for processing payments to participating merchants.

Online and mobile banking services are readily accessible to customers in all areas and to individuals of different income levels. The bank accepts online loan and deposit applications. FHNB's website ([www.fhnb.com](http://www.fhnb.com)) provides information regarding the bank's products and services, and allows online access to account information. Additionally,

customers enrolled for online banking can view check images, retrieve prior bank statements, notices, and receive electronic account statements (E-Statements). Online and mobile banking customers can transfer funds between their accounts and pay bills online.

FHNB also offers funds transfers to other FHNB customers and secure communications through online banking. FHNB offers email and text alerts for online and mobile banking customers, which can be used to monitor daily balance and transaction information. Live Chat features are also available through the bank's website seven days a week to assist customers with products and services.

FHNB offers several low cost deposit products, including a free deposit product with a very low opening balance requirement as well as a new "e-Account," which has no overdraft privileges. The e-Account has a low monthly maintenance fee, which can be reduced by enrollment in E-Statements. FHNB also provides low cost automatic transfers from savings accounts to deposit accounts to cover unintentional overdrafts. As part of FHNB's educational efforts, eligible customers receive a \$25 financial incentive to participate in a training course on how to avoid overdrafts and \$100 to open savings accounts with automatic transfers to help prevent overdrafts.

FHNB managers and officers dedicate time and resources in support of financial literacy for service members and their families. Educational programs provided by bank management enhance credit availability and promote sound financial account management. FHNB provides various financial educational programs on Fort Hood to service members at the request of base or unit commanders. Training programs include pre-deployment briefings, which help prepare service members and their families for long-term separation. FHNB officers also provide information and resources to assist service members with budget preparation and guidance on coping with unforeseen financial situations. FHNB provides instruction to new officers and leaders in counseling service members and families who may be experiencing financial problems while the unit is deployed.

FHNB provides basic financial awareness classes to all types of organizations on the Fort Hood army base, both military and civilian. The course curriculum focuses on the pitfalls of overdraft fees and negative credit reports while stressing the importance of investing for the future. Topics also include navigating bank and credit card statements, money-saving tips, and fundamental ways to pay down debt and achieve financial success. The classes also include pre-purchase information for buying a home and advice on complaint resolution.

FHNB educational courses include those based upon the FDIC Money Smart adult education program, educating students about credit scores, correcting credit reports, and debt reduction. Youth educational programs have focused on financial responsibility; including how to responsibly manage checking accounts and the importance of saving, how to use a check register, and the responsibilities of managing debit and credit cards. FHNB also participates in the *Military Saves Week*, which is a national Department of Defense financial readiness campaign to persuade and motivate military service members and family members, as well as the wider military community to reduce debt

and save money, thereby ensuring personal financial readiness. The bank also provides a free Internet café in one branch location on Fort Hood. FHNB provides computers for use in the café and the service is free to all service members and their families. Service members often use this service to complete testing required by the Army or as part of their educational requirements

At December 31, 2017, FHNB reported total assets of \$267 million and Tier 1 Capital of \$22 million. Net loans totaled \$108 million and represented 40 percent of total assets and 46 percent of total deposits. FHNB's credit strategy is consumer oriented, focusing on small dollar, short term loans, which management has identified as the primary credit need of its market. FHNB executives meet with base commanders and Fort Hood's military bank liaison officer at least quarterly to discuss credit and deposit needs of service members. Moreover, the Army reviews services offered and fees charged by FHNB through its service agreement.

The majority of FHNB's consumer loans are Smart Cash Loans (credit based small dollar unsecured loans) and Fresh Start Loans (short term loans to pay off overdrawn deposit accounts). FHNB does not charge interest or fees on Fresh Start Loans. FHNB offers other standard loan products such as residential and business loans; but demand for these products is limited. Active military customers have lower demand for residential mortgage products since on-base housing is available and off-base housing cost is subsidized.

FHNB's lending opportunities for capital improvements on base are limited as these projects are budgeted and financed through various government entities. FHNB purchases government guaranteed VA and FHA residential loans and business loan participations from its sister bank FNBT, which has expertise in commercial lending and mortgage loan products.

When FHNB's loan products do not meet an applicant's needs, the bank may refer the applicant to affiliate FNBT, or to First Community Mortgage (FCM), the mortgage lending division of FNBT. FCM specializes in VA and FHA lending programs. FHNB also has established referral relationships for small business loans with other providers such as LiftFund, formerly ACCION Texas.

Based on its financial condition, size, product offerings, and branch network, there are not any legal, financial, or other factors that inhibit FHNB's ability to help meet the credit needs in its AA. FHNB's loan portfolio as of December 31, 2017 is detailed in the table below:

<b>Loan Portfolio Summary December 31, 2017</b>			
<b>Loan Category</b>	<b>Number of Loans</b>	<b>Dollar Volume \$(000)</b>	<b>% Dollars Outstandin</b>
Consumer Loans	7,039	\$41,727	39%
RE Residential (1-4 Family)	316	\$50,941	47%
Business Loans and Public Finance	23	\$13,838	13%
RE Multifamily	1	\$1,548	1%
Real Estate (RE) Construction and Land Development	1	\$75	<1%
<b>Total Loan Portfolio</b>	<b>7,380</b>	<b>\$108,129</b>	<b>100%</b>

Sources: Call Report RC-C Part 1 – Loan Trial Balance by Account Number (#)

FHNB's AA includes its entire customer deposit base, throughout the continental United States. However, FHNB's primary market is the Killeen-Temple Metropolitan Statistical Area (MSA) located in Central Texas that includes three counties – Bell, Coryell, and Lampasas. FHNB's primary customers are retired and active duty military personnel and their dependents located at Fort Hood and existing customers who have moved to other national and international locations.

According to data provided by Fort Hood's Public Affairs Office, Fort Hood covers 342 square miles in Bell and Coryell counties, is the largest active duty military base in the United States Armed Forces, and is the only US post capable of stationing and training two Armored Divisions. With 35,611 assigned soldiers or airmen and 5,547 civilian employees, Fort Hood is the largest single-site employer in Texas. It provides an economic impact of \$35.4 billion to the Texas economy, according to the Texas State Comptroller in June of 2015. The Texas Comptroller's office also estimated that direct and indirect employment from Fort Hood provides over 200 thousand jobs in Texas.

FHNB ranked eighth in market share deposits in the Killeen-Temple MSA, according to the FDIC's June 30, 2017 Deposit Market Share Report, with 5 percent of the total deposit market share. FHNB ranked lower than several larger regional and national banks in the MSA, as well as other larger local banks, including sister bank FNBT. FHNB's competition on base is limited to the Pentagon Federal Credit Union as it is the only other financial institution located on base. However, Fort Hood is a military training facility and according to bank management, many of the active duty service members established banking relationships at other institutions prior to assignment at Fort Hood. Service members must have bank accounts for direct deposit purposes when they enlist.

FHNB competes against at least twenty other financial institutions in the Killeen-Temple MSA, as well as other financial institutions focused on serving the military located across the United States. In addition to other banks, credit unions, and mortgage companies, FHNB also faces strong competition for consumer loans from pawnshops and payday lenders that target the military population. The local Killeen telephone directory lists more than 100 entities with multiple locations that provide small loans. Quasi-governmental agencies, such as the Army and Air Force Exchange Service (AAFES) also compete for Fort Hood military customers. The AAFES offers a Delayed Payment Plan (DPP) and the

Army's Non-Appropriated Funds Program (NAF) offers the Affinity Card. These products offer below market rates and captive financing. Bank management indicates these types of products are often based on service member rank and remaining time in the service without regard to credit.

### **Community Contacts**

During a CRA evaluation, it is customary to contact various persons and/or organizations within a bank's AA to gain insight regarding local economic conditions and credit needs and to review CRA Performance Evaluations of comparable banks. To evaluate FHNB's performance, we reviewed CRA Performance Evaluations for other banks that predominately serve military personnel and we met with two community contacts to develop an understanding of the community profile, identify opportunities for participation by local financial institutions, and to assess performance of local financial institutions.

The contacts provided context regarding the impact of Fort Hood on the local economy and the need for ongoing financial education of military service members and their families. The contacts indicated that the overwhelming majority of service members are young and may not have experience with or an in-depth understanding of financial products making them vulnerable to non-traditional lenders and other financiers with less favorable lending terms, which could result in poor financial decisions. The contacts highlighted the ongoing need for affordable housing for service members and their families. When service members are deployed, families often stay behind and continue to live within surrounding communities.

Based on information provided by the community contacts and our assessment of FHNB's target market, we determined there are opportunities for financial education, affordable small loans, and affordable housing. The contacts further indicated that local financial institutions are involved in meeting the community's credit needs, servicing military families and their financial needs.

The prior CRA examination, dated January 27, 2015, assigned an overall "Needs to Improve" rating due primarily to the low average loan-to-deposit (LTD) ratio. Previous violations of the Federal Trade Commission (FTC) Act in the bank's overdraft programs also impacted the rating. FHNB continues to face challenges associated with the unique nature of its operating environment, customer base, and limited lending opportunities.

## **Scope of the Evaluation**

### **Evaluation Period/Products Evaluated**

We evaluated FHNB under the small bank performance standards, which includes five performance criteria: loan-to-deposit ratio, lending in the AA, lending to borrowers of different income levels, geographic distribution of loans, and responses to CRA-related complaints. The evaluation period for the lending test was January 1, 2015 through December 31, 2017.

To evaluate FHNB's lending performance, we selected a sample of loans based on FHNB's primary loan products by number or dollar volume of originations during the evaluation period. Primary loan products consist of residential real estate and consumer loans, including Smart Cash and automobile loans. Government guaranteed rehabilitated student loans represented a significant volume of loan originations during the evaluation period, but our analysis did not include these loans because income information is not available to FHNB for this purchased loan product.

To assess lending performance, we compared the bank's lending activities in 2015 and 2016 to 2010 nationwide census demographic data. We used the nationwide census data as a proxy for assessment area demographics. We evaluated 2017 lending performance by comparing it to the 2015 American Community Survey (ACS) census data, which was published in 2017. We evaluated consumer lending performance by selecting a random sample of 80 consumer loans originating between January 1, 2015 and December 31, 2017. Our assessment of residential lending focused on residential loan participations originating during the evaluation period. These loans are comprised 100 percent by participations in VA and FHA loans originated by the bank's affiliate, FNBT. FHNB originates conventional mortgage loans and home improvement loans, but there were too few to perform a meaningful analysis in comparison to each census period.

### **Data Integrity**

We verified the accuracy of home lending data made available to the public in accordance with HMDA reporting requirements. We evaluated accuracy of purchased loan data at affiliate FNBT. We also verified nonpublic consumer loan data for our sample of 80 consumer loans as well as the supporting nonpublic information for optional community development services and investments. We determined the public and non-public data included in this evaluation was accurate.

### **Selection of Areas for Full-Scope Review**

FHNB elected to be evaluated under the provisions of 12 CFR 25.41(f), which allows banks serving the needs of primarily military personnel and their dependents to define its assessment area as the entire deposit-customer base. FHNB's deposit customer base is effectively nationwide.

## **Ratings**

FHNB's overall rating is based on our assessment of CRA performance within the entire United States.

## **Discriminatory 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. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau.

The full-scope, onsite examination dated February 10, 2014, identified violations of Section 5 of the FTC Act, 15 USC 45, in certain practices relating to the Overdraft Privilege Program and the Fresh Start Loan Program. These programs were offered bank-wide and the violations affected the bank's customers. Since the 2014 examination, FHNB's Board of Directors and management team have revised overdraft and Fresh Start Loan products, including policies and internal controls, to prevent recurrence of the identified practices. In addition, employees received training on the revised policies and procedures. FHNB provided restitution to customers in December 2016 to resolve these violations.

The CRA performance rating in this evaluation was not lowered as a result of these findings. The prior CRA evaluation in 2015 considered the nature, extent, and strength of the evidence of the practices; the extent to which institution had policies and procedures in place to prevent the practices; and the extent to which the institution had taken or committed to take corrective action, including voluntary corrective actions resulting from self-assessment; and other relevant information. These factors were considered in the 2015 CRA Performance Evaluation rating of "Needs to Improve."

The OCC will consider any evidence of discriminatory or other illegal credit practices relative to this institution that other regulators may provide to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information provided concerns activities that occurred during the evaluation period addressed in this performance evaluation.

## Conclusions with Respect to Performance Tests

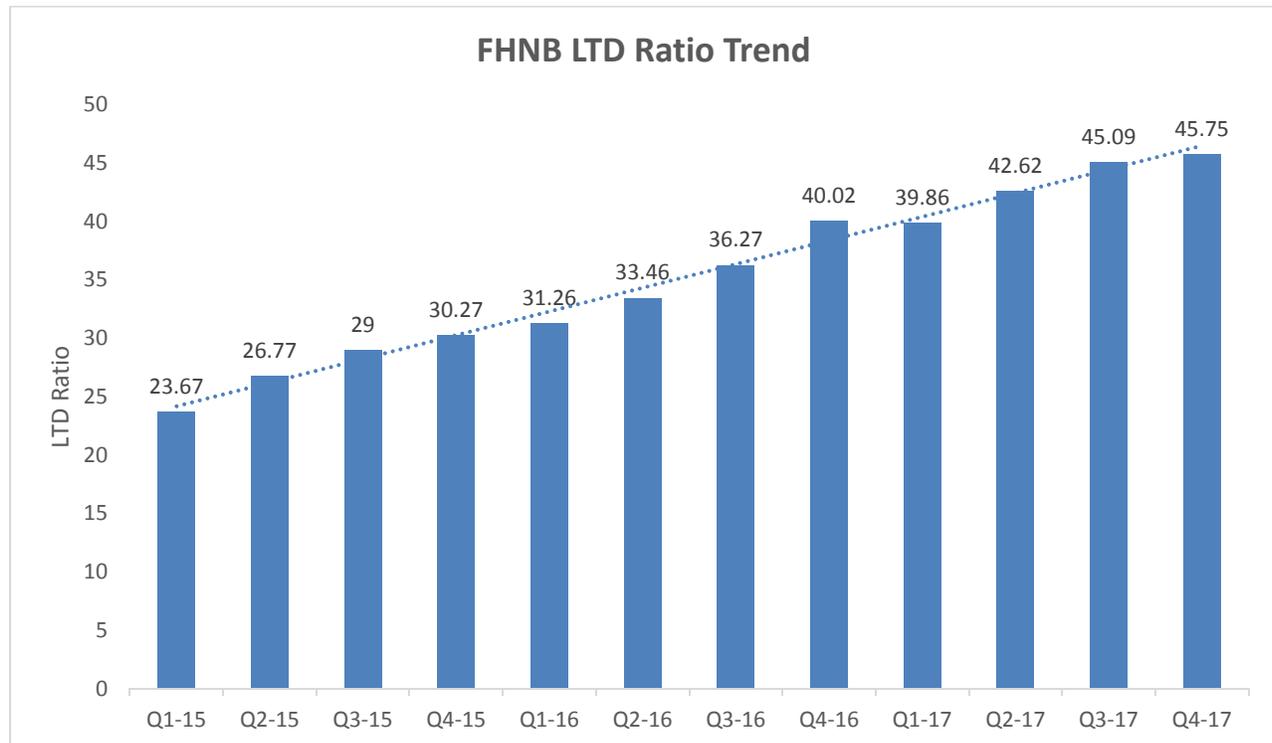
### LENDING TEST

FHNB's performance under the Lending Test is satisfactory. Lending volumes are reasonable given the bank's size, financial condition, and AA credit needs. A substantial majority of loans originate inside the bank's AA. The distribution of loans by borrower income is reasonable.

### Loan-to-Deposit Ratio

FHNB's LTD ratio is reasonable, given the bank's asset size, financial condition, competitive lending environment, and lending opportunities available in the bank's target market. FHNB originates a high volume of short term, small dollar consumer loans that do not significantly impact the LTD ratio. During the evaluation period, FHNB originated over 5,600 consumer loans, with an average loan size of \$1,500.

Since the last CRA evaluation, FHNB's total loan portfolio has grown from \$44 million to \$108 million at year-end 2017. The majority of this growth is centered in purchased residential real estate loans, purchased rehabilitated student loans, and the consumer loan portfolio, primarily Smart Cash loans. The average quarterly LTD ratio has increased significantly from 16 percent to 35 percent. As reflected in the following chart, FHNB's actual LTD ratio has increased steadily reaching 46 percent at year-end 2017.



FHNB's average LTD of 35 percent is still below five similarly situated banks with a military lending focus. The five other institutions had an average LTD ratio of 55 percent during the same time period from 2015 to 2017. However, FHNB's year-end 2017 ratio of 46 percent is more in-line with peer. FHNB's performance in 2017 and the year-end LTD ratio is also similar to the average LTD ratio of local community banks operating in the Killeen-Temple MSA. Local community banks had an average LTD ratio of 50 percent during the same time period. The table below reflects a comparison of FHNB's average quarterly LTD ratio with the five similarly situated banks focused on military lending.

Institution	State	Assets as of 12/31/2017 (000's)	Average LTD Ratio
Academy Bank, National Association	Colorado	\$1,274	86%
Armed Forces Bank, National Association	Kansas	\$1,070	68%
First Command Bank	Texas	\$750	42%
FSNB, National Association	Oklahoma	\$388	42%
Bank of Pensacola	Florida	\$82	37%
<b>Fort Hood National Bank</b>	<b>Texas</b>	<b>\$267</b>	<b>35%</b>

Source: Call Report, UBPR average of the LTD ratio from January 1, 2015 through December 31, 2017.

FHNB's operating environment and physical branch locations are factors contributing to the disparity between LTD ratios of the banks listed above. Seven of the eight FHNB locations are on Fort Hood and access to the base is restricted to active duty service members or civilians who work on the base. By contrast, Armed Forces Bank NA and Academy Bank, NA operate over 100 locations in multiple states, on multiple military installations, and inside multiple Wal-Mart stores. Similarly, FSNB (formerly Fort Sill National Bank) operates over 80 locations in 10 states, including multiple military installations and inside Wal-Mart stores. First Command Bank and Bank of Pensacola are not located on a military installation.

Other limiting factors of FHNB's LTD ratio include declining troop presence at Fort Hood due to deployments throughout the world. Information provided by bank management indicates that during the CRA evaluation period as many as 25 percent of FHNB service members were deployed for nine to twelve-month tours of combat duty. FHNB receives few residential home loan applications since service members are provided housing allowances or on-base housing. The average tour of duty at Fort Hood is three years or less also contributing to the low demand for residential loans. Management indicates there is very limited demand for business loans as the military discourages service members from starting outside businesses due to their mobility requirements. The increased competition and limited growth in its customer deposit account base are other contributing factors to FHNB's below average LTD ratio.

FHNB's large volume of small consumer loans, while meeting a primary credit need of the community, does not significantly increase the LTD ratio. In an effort to increase the ratio, FHNB initiated a VA/FHA mortgage loan retention program in 2012. As part of this program, the bank began purchasing VA/FHA mortgage loan participations originated by its affiliate FNBT. During the evaluation period, FHNB purchased participations in 202 VA/FHA loans totaling \$37 million. The average loan size was \$183 thousand. The median home value in the US, according to data from the 2015 American Community

Survey (ACS) Census Data, was \$226 thousand.

In March of 2015, FHNB began purchasing rehabilitated federally insured student loans from Texas Guaranteed Student Loan Corporation. These loans have been in default previously and include both subsidized and un-subsidized Stafford loans. The rehabilitated student loan program provides borrowers the opportunity to bring defaulted student loans to a current status upon timely completion of a repayment plan that takes a minimum of 10 months. When a loan returns to current status, borrower rights previously lost upon default are reinstated and the borrower's credit history reflects positive performance.

FHNB continues to offer the "Smart Cash" loan program, an affordable small dollar loan product designed to meet the credit needs of its customer base. The program offers short term, small loans (\$200 - \$1,000), at an affordable interest rate, either 12 or 18 percent depending on the loan amount and term to customers that have very limited, or no, credit history. The bank considers the customer's overall banking relationship before looking at their credit history to determine eligibility for a loan. FHNB ensures that the annual percentage rate (APR) does not exceed 36 percent. FHNB has increased consumer loan product advertisements in all branches to ensure that at least two consumer loan products and/or rate specials are advertised each month. Additionally, the bank uses direct mail and email campaigns each month to increase awareness of the loan products. Management attributes the increasing trend in consumer loan volume to the increased marketing of bank products.

FHNB also buys participations in commercial real estate loans and public finance (municipal) loans made by its affiliate, FNBT. These loans help support the Fort Hood community by providing funding for local retail and office space, medical facilities, and places of worship.

### **Lending in Assessment Area**

A substantial majority of loans and other lending-related activities are in the institution's assessment area. Lending in FHNB's AA is excellent.

FHNB serves a military community consisting of active duty and retired military personnel and their dependents as well as civilian personnel working on Fort Hood or for the military. The bank has defined its AA as its customer deposit base. Essentially 100 percent of lending is to the deposit customer base.

To assess performance, we reviewed all HMDA reportable loans and a sample of consumer loans, and verified loan customers had a deposit relationship with FHNB at loan origination. Our analysis determined 100 percent of the number of loans and 100 percent of the dollar amount of loans originated inside the bank's AA. Results by loan category are depicted in the following table.

<b>Lending in the Assessment Area</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans (000's)</b>				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	8	100%	0	0%	8	\$2,446	100%	0	0%	\$2,446
Home Improvement	12	100%	0	0%	12	\$610	100%	0	0%	\$610
Participations – VA, FHA	192	100%	0	0%	192	\$34,860	100%	0	0%	\$34,860
Consumer	80	100%	0	0%	80	\$638	100%	0	0%	\$638
<b>Totals</b>	<b>292</b>	<b>100%</b>	<b>0</b>	<b>0%</b>	<b>292</b>	<b>\$38,554</b>	<b>100%</b>	<b>0</b>	<b>0%</b>	<b>\$38,554</b>

Source: 2015 – 2017 HMDA, Internal bank loan reports

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

The distribution of loans reflects a reasonable penetration of loans to low- and moderate-income borrowers. Consumer loan distributions are excellent, while residential loan distributions are reasonable.

#### **Consumer Lending**

FHNB's distribution of consumer loans reflects excellent penetration among borrowers of different income levels. During the evaluation period, FHNB originated over 2,500 Smart Cash and other consumer loans totaling \$3.5 million. The majority of these loans were Smart Cash loans, with an average loan size of \$662.

In our sample of consumer loans from 2015-2016, FHNB originated 30 percent of consumer loans by number to low-income households and 33 percent to moderate-income households. As reflected in the table below, the bank's performance among low-income households exceeds US demographic information and loan penetration among moderate-income households significantly exceeds demographics.

<b>Borrower Distribution of Consumer Loans in the Assessment Area</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>
<b>Consumer Loans</b>	24	30	16	33	18	15	42	22

Source: Loan Sample 40 Consumer Loans 2015 – 2016; 2010 U.S. Census data.

As reflected in the table below, our assessment of the bank’s performance in 2017 is substantially the same as in 2015-2016, with 28 percent of consumer loans to low-income households and 30 percent to moderate-income households. The bank’s performance exceeds comparable demographic information in each category. The bank’s internal analysis for all consumer lending in 2017 is consistent with our conclusions, which found that 68 percent of consumer loan originations were to borrowers of either low- or moderate-incomes.

<b>Borrower Distribution of Consumer Loans in the Assessment Area</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
Consumer	25	28	16	30	17	28	42	14

Source: Loan Sample 40 Consumer Loans 2017; 2015 ACS US Census.

## Residential Lending

The distribution of residential loans to borrowers of different income levels is reasonable. The bank’s penetration of residential loans to moderate-income borrowers was above comparable US demographic data in 2017, and just slightly below demographic data in years 2015 – 2016. The distribution of loans to low-income borrowers is poor. We did not place as much reliance upon the bank’s residential lending performance as the majority of loans are purchased and the volume of direct lending was insufficient to perform a meaningful analysis.

The poor distribution of residential loans to low-income borrowers is attributed in part to the reluctance of service members to purchase homes given the average tour of duty at Fort Hood is three years or less. In addition, some service members, including low-to-moderate income individuals, are provided with base housing or subsidized rental housing, which further reduces the desire to apply for a home loan.

FHNB purchased 192 residential participations approximating \$35 million, all of which originated during the evaluation period to FHNB customers. The majority (98 percent) of the loan participations were loans guaranteed by the Veteran’s Administration (VA). The remaining two percent were loans guaranteed by the Federal Housing Administration (FHA). The VA and FHA programs provide long term financing options for consumers, typically with more flexible lending terms, and lower down payment requirements.

FHNB originated and purchased 20 HMDA reportable residential loans during the evaluation period totaling approximately \$3 million. These loans were all conventional loans to middle- or upper-income borrowers. Income information was not available or reported on four loans. The number of these loans was not sufficient to perform a meaningful analysis in each census period.

The tables below summarizes the bank’s performance in comparison to applicable US demographic data.

<b>Borrower Distribution of 2015 – 2016 Residential Loans in the Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Residential Loans	21	2	18	15	20	29	41	50

Source: Bank list of 136 residential loan participations originated 2015-2016. Income information was not available on 5 loans or 4% of the purchased loans. 2010 U.S. Census data.

<b>Borrower Distribution of 2017 Residential Loans in the Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Residential Loans	22	0	17	22	20	32	41	41

Source: Bank list of 56 residential loan participations originated in 2017. Income information was not available on 3 loans or 5% of the purchased loans. 2015 ASCS Census data

## Geographic Distribution of Loans

The geographic distribution of loans is reasonable. We placed more weight on the bank's consumer lending, rather than purchased residential loans, which originated with the bank's affiliate. Overall, we placed less weight on the geographic distribution of loans because FHNB defines its AA by its nationwide customer base and not by geographic boundaries. Significant volumes of FHNB's lending activities are in the Killeen-Temple MSA, and near the Fort Hood base, where its branches are located. We placed more weight on other aspects of the bank's lending performance, including borrower loan distribution, in determining the bank's rating.

## Consumer Lending

Direct consumer loan dispersions were excellent in moderate-income CTs and exceeded AA demographic data. Consumer loan dispersions in low-income CTs are slightly below AA demographics. However, approximately 70 percent of consumer loans are located in the Killeen Temple MSA, which only has three low-income CTs.

The number of direct residential loans was too small to perform a meaningful analysis during each of the two applicable census periods, so our analysis focused on purchased residential loan participations. The dispersion of purchased residential participations is poor and below comparable U.S. demographics. Although as indicated above, a significant volume of lending is in the Killeen-Temple MSA.

As reflected in the tables below, the dispersion of consumer loans in moderate-income CTs exceeds comparable demographic information in each census period. The dispersion of consumer loans in low-income CTs is slightly below demographic data.

Geographic Distribution of 2015 - 2016 Consumer Loans in the Assessment Area								
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	6	5	21	25	45	60	27	10

Source: Consumer Loan Sample 2015-2016, 2010 U.S. Census, NA represented .01%

Geographic Distribution of 2017 Consumer Loans in the Assessment Area								
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	6	3	21	30	44	50	28	17

Source: Consumer Loan Sample 2017, 2015 ACS U.S. Census, NA represented 0.21%

## Residential Lending

The dispersion of residential loan purchases is poor and below comparable U.S demographics in low- income and moderate-income CTs for each census period as reflected in the following tables:

Geographic Distribution of 2015 – 2016 Residential Loans in the Assessment Area								
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
Total Residential Loans	3	0	16	4	49	60	32	36

Source: Bank list of residential participations, 2010 U.S. Census data.

Geographic Distribution of 2017 Residential Loans in the Assessment Area								
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
Total Residential Loans	3	2	17	9	47	48	33	41

Source: Bank list of residential participations in 2017; 2015 ACS U.S. Census

During the years 2015-2016, eighty-two percent of the purchased residential loans were in the Killeen-Temple MSA where the bank’s affiliate has several branch offices and stand- alone mortgage loan production offices. In 2017, seventy percent of the purchased loans were in the Killeen-Temple MSA. The dispersion of purchased residential loans in the Killeen-Temple MSA is also below MSA demographics in both low- and moderate-income CTs.

## **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 FHNB CRA performance.

## Appendix A: Scope of Examination

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The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test January 1, 2015 – December 31, 2017	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Fort Hood National Bank	Residential Loans Consumer Loans (Smart Cash, Auto)	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
Not Applicable		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
United States	Full Scope	

## Appendix B: Community Profile for Full-Scope Area

Demographic Information: United States of America Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA*% of #
Geographies (Census Tracts/BNAs)	73,058	8%	22%	42%	26%	2%
Population by Geography	316,515,021	7%	22%	43%	28%	<1%
Owner-Occupied Housing by Geography	74,712,091	3%	17%	47%	33%	<1%
Business by Geography	21,531,542	5%	19%	40%	35%	<1%
Farms by Geography	780,868	2%	13%	57%	28%	<1%
Family Distribution by Income Level	77,260,546	22%	17%	20%	41%	0%
Distribution of Low and Moderate Income Families throughout AA Geographies	30,414,083	11%	30%	43%	16%	<1%
Median Family Income		\$67,663	Median Housing Value		\$225,895	
FFIEC Adjusted Median Family Income for 2017		\$69,675	Unemployment Rate (2015 ACS US Census)		4.15%	
Households Below Poverty Level		14.38%				

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2015 ACS U.S. Census and 2017 FFIEC updated MFI.

FHNB predominantly serves military personnel and as allowed under 12 CFR 25.41(f) has designated its entire deposit customer base as its AA. Because FHNB's customer deposit base is spread throughout the United States and globally in a number of other countries where U.S. military personnel are assigned, we used the United States AA for determining the bank's performance under the Lending and CD tests. Given the expanse of the AA, we are not able to provide specific demographic and economic information for each area where FHNB performs business or has customers. However, the table above includes, includes demographic and economic information for the entire U.S.

The July 2017 population estimates by the U.S. Census Bureau indicate the U.S. population is approximately 326 million, a 5.5 percent increase since April 2010. An updated income report from the U.S. Census Bureau in September 2017 indicates the official 2016 poverty rate was 12.7 percent; the second consecutive annual decline in the poverty rate. Updated January 2018 unemployment data from the Bureau of Labor Statistics is similar to the 2015 ACS data of 4.1 percent shown above.

The United States economy is the world's largest and with the most diverse sectors and industries. According to the Bureau of Labor Statistics, major industries within the U.S. economy include state and local governments; professional and business services; healthcare and social assistance; retail trade; leisure and hospitality; and manufacturing. Some of the largest employers include the US Government, Walmart, Kroger, Yum China Holdings, IBM, and Home Depot according to 2017 news sources.