

PUBLIC DISCLOSURE

February 3, 2020

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First State Bank
RSSD# 603755

2002 Main Street
Junction, Texas, 76849

Federal Reserve Bank of Dallas

2200 N. Pearl Street
Dallas, Texas 75201

NOTE: This document is an evaluation of this bank'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 bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial bank.

TABLE OF CONTENTS

INSTITUTION'S CRA RATING	2
SCOPE OF EXAMINATION.....	2
DESCRIPTION OF INSTITUTION	2
DESCRIPTION OF ASSESSMENT AREA	3
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA.....	4
FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW	6
APPENDIX A – MAP OF THE ASSESSMENT AREA.....	7
APPENDIX B – DEMOGRAPHIC INFORMATION	8
APPENDIX C – GLOSSARY	9

INSTITUTION'S CRA RATING

First State Bank (the bank) is rated Satisfactory. This rating is based on the following conclusions with respect to the performance criteria:

- The bank's net loan-to-deposit ratio (NLTD) is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank's loans are originated inside the AA.
- A reasonable dispersion of loans occurs throughout the bank's AA.
- Lending reflects a reasonable penetration among businesses of different sizes.
- Neither the bank nor this Reserve Bank received any CRA-related complaints since the previous evaluation.

SCOPE OF EXAMINATION

The Federal Financial Institutions Examination Council's (FFIEC's) Interagency Examination Procedures for Small Institutions were utilized to evaluate the bank's CRA performance. The evaluation considered CRA performance context, including the bank's asset size, financial condition, business strategy and market competition, as well as AA demographic and economic characteristics, and credit needs. Lending performance was assessed within the bank's Kimble County AA. The following data was reviewed:

- The bank's nineteen quarter average NLTD since the last CRA evaluation dated January 12, 2015.
- A sample of 49 small business loans originated between January 1, 2018 and December 31, 2018.
- Community Contact – an individual familiar with the credit needs and economic development of the Kimble County AA was contacted.
- Response to Substantiated Complaints – this criterion was not evaluated, as no CRA related complaints were received by the bank or this Reserve Bank since the previous evaluation.

DESCRIPTION OF INSTITUTION

First State Bank is a community bank headquartered in Junction, TX. The bank has not opened or closed any branches since the previous evaluation. The bank has not had any merger or acquisition activity since the last evaluation. The bank's characteristics include:

- The bank is a wholly owned subsidiary of Kimble County Bancshares.
- The bank has total assets of \$49.7 million as of September 30, 2019.
- The bank's only office is located in Junction, Texas.
- There is a single cash-only ATM located at the bank's only location.
- The bank's primary business focus is commercial lending.

Table 1 Composition of Loan Portfolio as of September 30, 2019		
Loan Type	\$(000)	%
Agricultural	5,050	16.4
Commercial	17,669	57.3
Residential Real Estate	6,561	21.2
Consumer	1,571	5.1
Other	7	0.0
Gross Loans	30,858	100.0
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>		

The bank was rated Satisfactory under the CRA at its January 12, 2015 performance evaluation. There are no known legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its communities.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA is comprised of Kimble County in its entirety (see Appendix A for an AA map).

- The AA is made up of two middle-income census tracts according to 2018 FFIEC Census Data.
- The AA has not changed since the previous exam.
- The bank has 40.9% of the deposit market share in this AA, and ranks second of the two Federal Deposit Insurance Corporation (FDIC)-insured institutions located in the AA.
- The two census tracts in the AA are both considered to be distressed.
- One community contact was made with an individual familiar with the economic development activities and credit needs of the bank's AA.

Table 2 Population Change			
Area	2010 Population	2015 Population	Percent Change
Kimble County	4,607	4,486	-2.6%
State of Texas	25,145,561	26,538,614	5.5%
<i>Source: 2010 U.S. Census Bureau Decennial Census 2011-2015 U.S. Census Bureau: American Community Survey</i>			

- The decrease in population is mostly due to the exit of younger individuals moving away from Junction to pursue other educational and job opportunities outside of the AA.

Table 3 Median Family Income Change			
Area	2010 Median Family Income	2015 Median Family Income	Percent Change
Kimble County	52,262	51,995	-.5%
State of Texas	58,142	62,717	7.9%
<i>Source: 2006-2010 U.S. Census Bureau: American Community Survey 2011-2015 U.S. Census Bureau: American Community Survey</i>			

- While the 0.5% decrease in median family income did not materially impact the area, the 7.9% increase in the state's median family income did contribute to the AA's two census tracts being designated as distressed.

Table 4 Housing Costs Change						
Area	Median Housing Value		Percent Change	Median Gross Rent		Percent Change
	2010	2015		2010	2015	
Kimble County	89,500	85,400	-4.6%	563	645	14.6%
State of Texas	123,000	136,000	10.6	786	882	12.2%
<i>Source: 2006-2010 U.S. Census Bureau: American Community Survey 2011-2015 U.S. Census Bureau: American Community Survey</i>						

- The increase in rent costs is due to the limited amount of rental housing available to the area. A larger portion of the housing is owner occupied compared to the last CRA evaluation.
- Nonresidents are purchasing ranch land inside the AA for recreational, retirement and investment purposes, limiting the opportunities for local residents to purchase property.
- Additionally, some local ranchers and agricultural producers are retiring and selling their agriculture producing properties.

Table 5 Unemployment (%) Rates					
Region	2014	2015	2016	2017	2018
Kimble County	3.9	3.6	3.8	3.5	3.1
State of Texas	5.1	4.4	4.6	4.3	3.9
<i>Source: Bureau of Labor Statistics: Local Area Unemployment Statistics</i>					

- The decrease in the unemployment rate is reflective of the decline in the working population, and is aided by the opening of a chain hotel in the city, which provided more job opportunities in the community.
- The most stable employers for the area are the Lowes Grocery, McDonalds, and the Dollar General. All of which are service industry employers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall performance under the lending test is satisfactory.

Net Loan-to-Deposit Ratio

This performance criterion evaluates the bank's average NLTD to determine the reasonableness of lending in light of performance context, such as the bank's capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the AA, and in comparison to similarly situated FDIC-insured institutions. The similarly situated institutions were selected based on asset size, product offerings, and areas of operation.

The bank's NLTD is reasonable given the bank's resources, and local competition from other financial institutions. As of September 30, 2019, the bank's NLTD was 69.1% and the quarterly average since the previous evaluation was 57.6%. The comparison banks have quarterly NLTDs ranging from 25.4% to 69.9% as of September 30, 2019. The bank's NLTDs reflect favorably upon its efforts to meet the credit needs of its community.

Table 6 Comparative NLTD Ratios			
Institution	Location	Asset Size (\$000s)	NLTD Ratio (%)
			19 Quarter Average
First State Bank	Junction, Texas	\$49,671	57.6%
Junction National Bank	Junction, Texas	\$68,179	25.4%
The First Bank of Celeste	Celeste, Texas	\$54,381	49.2%
The First National Bank of Eldorado	Eldorado, Texas	\$58,932	48.1%
Morris County National Bank	Naples, Texas	\$89,918	69.9%

Assessment Area Concentration

This performance criterion evaluates the percentage of lending extended inside and outside of the AA. A majority of the bank's loans, by number, are originated inside the AA. The bank extended 36 or 73.5% by number volume of the sampled loans inside its AA. The loans made to businesses outside of the AA are concentrated to fewer borrowers, at significantly higher dollar amounts. There is no concentration to one particular borrower.

Table 7 Lending Inside and Outside the AA								
Loan Type	Inside				Outside			
	#	\$(000)	#%	\$%	#	\$(000)	#%	\$%
Small Business Loans	36	1,216	73.5	49.2	13	1,254	26.5	50.8
Total Loans	36	1,216	73.5	49.2	13	1,254	26.5	50.8

Note: Percentages may not add to 100.0 percent due to rounding.

Geographic Distribution of Loans

The bank's geographic distribution of loans reflects reasonable dispersion among the two census tracts within the AA. The entire AA was made up of two middle-income census tracts at the time of review. Loans were generally made in close proximity to the bank's branch and there were no conspicuous gaps or anomalies in the lending patterns. While the majority of loans by number are inside of the AA, these are usually smaller dollar loans.

Small Business Lending

The geographic distribution of small business lending is reasonable. As there are only two middle-income census tracts in the bank's AA, there could be no meaningful assessment of the distribution of loan distribution by income tract level.

Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes

This performance criterion evaluates the bank's lending to borrowers of different income levels and businesses of different revenue sizes. The bank's lending has a reasonable penetration among individuals of different income levels and businesses and farms of different sizes.

Small Business Lending

The borrower distribution of small business lending is reasonable. Loans are made to businesses of all sizes, throughout the AA as identified through a sampling of small business loans made by the bank.

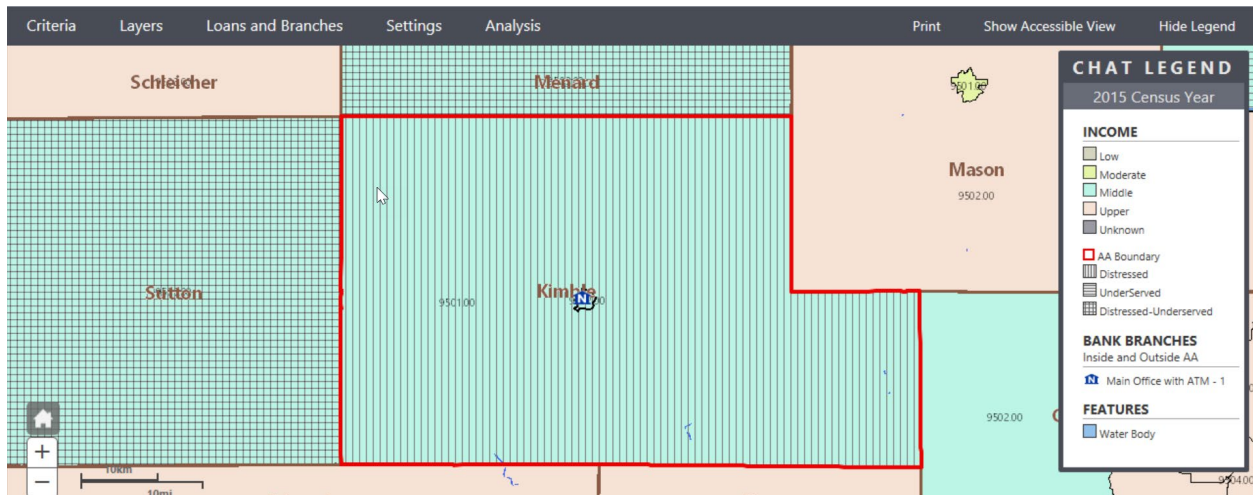
Table 8 Distribution of 2018 Small Business Lending By Revenue Size of Businesses					
	Bank Loans				Total Businesses
	#	\$(000)	#%	\$%	%
By Revenue					
\$1 Million or Less	36	1,216	100.0	100.0	100.0
Over \$1 Million	0	0	0.0	0.0	0.0
Not Known	0	0	0.0	0.0	0.0
Total	36	1,216	100.0	100.0	100.0
By Loan Size					
\$100,000 or less	32	474	88.9	38.9	
\$100,001 - \$250,000	4	742	11.1	61.1	
\$250,001 - \$1 Million	0	0	0.0	0.0	
Total	36	1,216	100.0	100.0	
By Loan Size and Revenue \$1 Million or Less					
\$100,000 or less	32	474	88.9	39.0	
\$100,001 - \$250,000	4	742	11.1	61.0	
\$250,001 - \$1 Million	0	0	0.0	0.0	
Total	36	1,216	100.0	100.0	
Source: 2015 U.S. Census Bureau: American Community Survey NOTE: Percentages may not add up to 100.0 due to rounding.					

The bank originated a total of 36 small business loans in the AA during the evaluation period, with all loans being made to businesses with revenues of \$1 million or less. A total of 88.9% of loans made are less than \$100 thousand, reflecting the efforts of the bank to meet the credit needs of small businesses.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. Established practices and procedures are designed to ensure ongoing compliance with applicable laws and regulations.

APPENDIX A – MAP OF THE ASSESSMENT AREA



APPENDIX B – DEMOGRAPHIC INFORMATION

KIMBLE COUNTY AA DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	278	21.2
Moderate	0	0.0	0	0.0	0	0.0	241	18.4
Middle	2	100.0	1,309	100.0	197	15.0	269	20.6
Upper	0	0.0	0	0.0	0	0.0	521	39.8
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	2	100.0	1,309	100.0	197	15.0	1,309	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	3,351	1,477	100.0	44.1	513	15.3	1,361	40.6
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	3,351	1,477	100.0	44.1	513	15.3	1,361	40.6
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0
Moderate	0	0.0	0	0.0	0	0.0	0	0
Middle	236	100.0	215	100.0	16	100.0	5	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0
Unknown	0	0.0	0	0.0	0	0.0	0	0
Total AA	236	100.0	215	100.0	16	100.0	5	100.0
Percentage of Total Businesses:				91.1		6.8		2.1
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	31	100.0	31	100.0	0	0.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	31	100.0	31	100.0	0	0.0	0	0.0
Percentage of Total Farms:				100.0		0.0		0.0
Source: 2018 FFIEC Census Data 2018 Dun & Bradstreet data NOTE: Percentages may not add up to 100.0 due to rounding.								

APPENDIX C – GLOSSARY

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 metropolitan area/assessment area.

Census tract: 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 statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and 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 the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies, designated disaster areas; or designated distressed or underserved nonmetropolitan middle-income geographies.

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 nonrelatives 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-scope review: Performance is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, 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 do 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 applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

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-scope review: Performance is analyzed using only quantitative factors (for example, 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 metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

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 multistate 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 multistate metropolitan area, the institution will receive a rating for the multistate 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. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial 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 Reports 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.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.