



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

December 17, 2007

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

First-Lockhart National Bank  
Charter Number: 13934

111 South Main Street  
Lockhart, TX 78644

Office of the Comptroller of the Currency

San Antonio North  
500 North Akard Street Suite 1600.  
Dallas, TX 75201

**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.”**

First Lockhart National Bank's (FLNB) lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA). FLNB's performance under these performance criteria meets the standard for satisfactory performance.

- FLNB's average loan-to-deposit (LTD) ratio of 78% is comparable to other similarly situated banks and is reasonable when considering the nature of its community, customer base, and known credit needs in the AA.
- A reasonable percentage (74%), of FLNB's loans is within its AA.
- FLNB has demonstrated a willingness to extend loans to individuals of varying incomes and to businesses of different sizes. Lending to low- and moderate-income (LMI) borrowers meets or exceeds the standards for satisfactory performance.
- The geographic distribution of residential real estate loans to moderate-income census tracts within the AA is reasonable, given the demographics of the AA.
- There have been no complaints with respect to FLNB's CRA performance.

## **SCOPE OF EXAMINATION**

FLNB is subject to a streamlined CRA examination that focuses primarily on five performance criteria: 1) The bank's loan-to-deposit ratio 2) The bank's lending in their assessment area 3) The bank's lending to borrowers of different incomes and to businesses of different sizes 4) The geographic distribution of the bank's loans and 5) Any responses to complaints. For each of the five criteria, we will determine whether the bank meets, exceeds or does not meet the standard for satisfactory performance. In our assessment, we relied on a judgmental sample of 29 commercial and 28 consumer loans. We also utilized the bank's Home Mortgage Disclosure Act (HMDA) reporting data which provided us with information concerning 75 of the bank's residential real estate loans. The time period covered in our sample is January 1, 2005 through September 30, 2007.

## **DESCRIPTION OF INSTITUTION**

FLNB is headquartered in the city of Lockhart, Caldwell County, Texas, which is approximately 40 miles southeast of Austin. Four automated teller machines (ATMs) are available in Lockhart and one in Martindale. The bank also has two drive-through facilities located behind the main bank in Lockhart.

FLNB is 100% owned by Lockhart Bancshares Inc. Texas (LBI) a one-bank holding company (HC) located in Lockhart. LBI is a two-tiered one-bank HC, which includes the intermediate HC of LBI Delaware. LBI is 100% independently owned by shareholders. Total assets of LBI were \$10.5 million, as of June 30, 2006. On January 1, 2006, the bank obtained sub-chapter S status.

The bank's principal focus is to promote economic development in its AA through its lending programs. FLNB's primary lending products include residential, consumer, and commercial loans. Total loans as of September 31, 2007, amounted to \$83.2 million, which comprise 69.5% of total assets. The following table reflects a detailed breakdown of FLNB's loan portfolio as of September 31, 2007.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Construction	732	1%
RE Farmland	3,250	4%
RE Residential (1-4)	12,135	15%
RE Multifamily Residential	1,355	2%
RE Nonfarm Nonresidential	33,086	40%
Agricultural Production	1,987	2%
Commercial and Industrial	26,178	31%
Consumer	4,390	5%
States/Political Subdivisions	0	0%
Other	112	0%
Total	83,225	100%

Bank lobby and drive-through services are provided Monday through Friday at the main bank, while only drive-through services are provided on Saturdays. FLNB faces competition from other banks in the AA as well as those located outside the AA. FLNB has a 24-hour telephone audio response system, which allows customers to obtain account balance information, transfer funds between accounts, and make loan payments. This organization also has an Internet web site, which provides information concerning the bank’s services as well as obtaining deposit account information, transfers between accounts, and bill paying. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FLNB has the ability to meet the various credit needs in its community. At our last CRA examination in September of 2002, FLNB’s CRA rating was “Outstanding.” No legal impediments or other factors hinder the bank’s ability to provide credit in its AA.

## DESCRIPTION OF ASSESSMENT AREA

FLNB has designated Caldwell County as its assessment area. Caldwell County is part of the Austin-Round Rock Metropolitan Statistical Area (MSA). Principal communities located in the assessment area include Lockhart, Luling, Martindale, Dale, and Maxwell. Specific demographic and economic data for this area is listed in the table on the following page.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b>Population</b>	
Number of Families	8,080
Number of Households	10,777
<b>Geographies</b>	
Number of Census Tracts (CTs)	7
% Low-Income CTs	0.0%
% Moderate-Income CTs	85.7%
% Middle-Income CTs	14.3%
% Upper-Income CTs	0.0%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	59,438
2005 HUD-Adjusted MFI	68,600
2006 HUD-Adjusted MFI	69,600
2007 HUD-Adjusted MFI	69,600
<b>Economic Indicators</b>	
Unemployment Rate	2.41%
2007 Median Housing Value	67,255
% of Households Below Poverty Level	12.42%

FLNB’s AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. Based on 2000 Census data, the AA has a combined population of 32,194. There are 11,901 housing units in the AA, of which 63% are owner-occupied, 28% renter-occupied and 9% are vacant. Approximately 33% of the families in the AA are considered low-income. Moderate-income families approximate 26% of the population, while middle- and upper-income families comprise the remaining 41%. Major employers in the AA include the local school district, several manufacturing companies, the city and county, and the local prison facility.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted one community leader during this examination. The contact is a former Mayor of Lockhart and currently serves as Justice of the Peace. The contact stated that the local economy is in a strong growth mode and that FLNB is active in the community and responsive to the areas credit needs.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Based on our analysis and demographic characteristics, management is performing in a satisfactory manner in meeting the credit needs of its AA, including LMI individuals.

## Loan-to-Deposit Ratio

FLNB's LTD ratio is strong given its asset size, financial condition, and lending opportunities within its AA. Since the last CRA examination, the LTD ratio has increased from 76% on June 30, 2002, to 80% on September 31, 2007. FLNB's average LTD ratio over the past 21 quarters is 78%, which reflects an increase from the bank's average LTD of 64% during the previous CRA examination. FLNB's average LTD ratio is comparable to other similarly situated banks and is reasonable when considering the nature of its community, customer base, and known credit needs in the AA. The following table compares FLNB's average LTD ratio against peer institutions. The LTD ratio for FLNB's internal peer group averaged 63% during this period.

<b>Institution</b>	<b>Assets as of September 30, 2007</b>	<b>Average LTD Ratio %</b>
Community National Bank Hondo	93,516	72.89
First State Bank New Braunfels	219,071	85.65
First State Bank Yoakum	93,477	51.46
Schertz Bank & Trust	134,486	70.27
City National Bank of Taylor	216,880	31.65
First National Bank of Bastrop	291,506	66.38
<b><i>First Lockhart NB</i></b>	<b><i>119,676</i></b>	<b><i>77.61</i></b>

\* Asset sizes of institutions are in thousands (000's)

## Lending in Assessment Area

A majority of the bank's loans were made within its AA. In order to assess performance for this criterion, we reviewed a sample of 29 commercial, 28 consumer, and 75 residential loans originated during 2005 through September 2007. The total sample consisted of \$11 million in new loans over the specified time period. Our analysis determined that 74% of the number and 60% of the dollar amount of all loans sampled were made within the AA. As indicated in the table below, the percentage of FLNB's loans made to borrowers in the AA is consistent among all of the three products sampled. Factors contributing to FLNB's lending to borrowers outside of their AA include: 1) limited loan demand within the AA 2) an increase in the bank's lending opportunities in Austin and 3) the bank's loan production office in San Antonio. Based on our analysis, the bank meets the standards for satisfactory performance regarding this criterion.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	23	79	2,323	57	6	21	1,735	43
Consumer	21	75	176	60	7	25	115	40
Residential	54	72	4,122	62	21	28	2,579	38
<b>Total Reviewed</b>	<b>98</b>	<b>74%</b>	<b>\$6,621</b>	<b>60%</b>	<b>34</b>	<b>26%</b>	<b>\$4,429</b>	<b>40%</b>

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

The loan portfolio reflects a good distribution of residential, consumer, and commercial loans among individuals of various income levels and businesses of different sizes within the AA. Our analysis included a sample of 54 residential, 21 consumer, and 23 commercial loans *originated in* the bank’s AA from January 1, 2005 through September 31, 2007.

As reflected in the table below, FLNB’s residential real estate lending to borrowers of different incomes is satisfactory. As indicated in U.S. Census demographic data, approximately 59% of AA families are considered LMI. Comparatively, FLNB originated 36% of the number, and 23% of the dollar amount of sampled loans secured by residential real estate to LMI borrowers. Mitigating factors which help to explain the relatively lower percentage of residential real estate loans to LMI families is 1) a limited supply of homes within the AA that LMI families would qualify for and 2) neighborhoods within the AA which cater to LMI families offer their own financing with which the bank is often unable to compete.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families <sup>1</sup>	33.1		25.6		22.2		19.0	
	% of Number	% of Amount						
Total	11.3	4.1	24.5	19.3	20.7	20.2	43.4	56.3

As indicated in the next table, FLNB’s consumer lending to borrowers of different incomes exceeds the standards for satisfactory performance. U.S. Census demographics indicate that 53% of AA households are LMI. Comparatively, CNB originated 100% of the sampled consumer loans to LMI borrowers.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	31.7		21.6		22.1		24.5	
	% of Number	% of Amount						
Total	61.9	48.9	38.1	51.1	0	0	0	0

FLNB’s distribution of loans to small businesses is reasonable and meets the standards for satisfactory performance. According to U.S. Census information, 96% of businesses in FLNB’s AA have revenues of less than \$1 million. Approximately 74% of sampled business loans were made to businesses with revenues below \$1 million. Although 40% of the dollar amount of commercial loans sampled went to business with revenues over \$1 million, this in itself is not cause for concern. Included in our random sample were a few of the bank’s largest loans to businesses over the \$1 million revenue mark. In addition, larger businesses inherently qualify for and demand larger loan amounts. Please refer to the table below for further details.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses <sup>3</sup>	95.7	4.3
% of Bank Loans in AA #	73.9	26.1
% of Bank Loans in AA \$	59.8	40.2

**Geographic Distribution of Loans**

FLNB’s AA consists of seven CTs, six of which are classified as moderate income geographies. The remaining CT is considered a middle income geography. Due to moderate income geographies comprising the majority of the bank’s AA, we focused our geographic distribution analysis solely on the bank residential real estate lending.

The geographic distribution of residential real estate loans within the AA is good and meets the standards for satisfactory performance, given the AA demographics. U.S. Census data indicated that 87% of AA households are located in moderate-income census tracts. FLNB originated 65% of the number and 63% of the dollar amount of residential real estate loans to borrowers located in moderate-income AA census tracts. Please see the table below for further details.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied <sup>4</sup>	0		87.2		12.8		0.0	
	% of Number	% of Amount						
Totals	0	0	64.8	62.5	35.2	37.5	0.0	0.0

### Responses to Complaints

No complaints relating to the banks CRA performance has been received by FLNB or the Office of the Comptroller of the Currency’s Customer Assistance Group.

### Fair Lending Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.