



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

October 27, 2008

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Austin Bank, Texas National Association  
Charter Number: 5581

200 East Commerce Street  
Jacksonville, TX 75766

Office of the Comptroller of the Currency

LONGVIEW FIELD OFFICE  
1800 West Loop 281 Suite 306  
Longview, TX 75604-2516

**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 Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors that support this rating include:

- Austin Bank demonstrates good responsiveness to the credit needs of its assessment areas. The bank's loan-to-deposit ratio is strong and a majority of the bank's loans were within its designated assessment areas. The distribution of these loans by geography and by borrower income level reflects a reasonable penetration throughout the assessment areas.
- The level of qualified community development services, investments, and loans represents satisfactory responsiveness to identified community development needs. Austin Bank's delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment areas. Additionally, the bank participates in programs and organizations providing community development services throughout the assessment areas. The bank also made qualified investments during the evaluation period totaling \$210M or 0.29% of Tier 1 Capital.

## **Scope of Examination**

Conclusions regarding the bank's lending performance are based on residential mortgage and business loans for the years 2006, 2007, and year to date 2008. For the community development test, the evaluation period runs from the ending date of the last CRA evaluation period to the stated date of the current CRA examination. This test includes a review of the investments, services, and loans provided in the bank's assessment areas that meet the definition of community development.

The bank's primary assessment area includes the counties of Cherokee, Nacogdoches, and adjacent census tracts in Panola and Shelby counties. This area, referred to as the Jacksonville Area, was selected for a full scope review due to the location of the bank's headquarters and the number of branch locations. The Longview MSA was also selected for review. These areas constitute a representative sample of both rural and metropolitan markets in which the bank operates. Performance ratings are based primarily on results of these areas.

Our review also included contacting local business groups in each of the assessment areas receiving a full scope examination. Contacts in both assessment areas stated the primary need in each area is for residential loans and commercial loans. Both contacts also noted the lack of affordable housing and noted the local financial institutions offer products that help meet these needs.

## Description of Institution

Austin Bank, headquartered in Jacksonville, Texas is an intrastate financial institution with \$1 billion in assets. The bank is wholly owned by Austin Bancorp, Inc., a one bank holding company. Austin Bank has twenty-eight full service branches and automatic teller machines located throughout the East Texas area. The bank's offices are located in the non-metropolitan counties of Cherokee, Harrison, Nacogdoches, Shelby, Van Zandt, and Rains. Banking offices are also located in the Tyler MSA that includes Smith County and in the Longview MSA that includes Gregg, Rusk, and Upshur Counties. In early 2008, the bank bought City National Bank of Kilgore and acquired additional branch offices in the Gregg County area. While the acquisition did not change the bank's defined assessment areas, the additional locations, primarily in the Kilgore area, provide easier access to customers in Rusk County and throughout the Longview MSA.

Austin Bank's philosophy is to be a full service institution by providing a wide array of financial services to consumers and commercial businesses. Austin Bank is retail oriented and offers a wide range of deposit and loan products. As of September 30, 2008, the bank's net loans represented 70% of total assets. The following chart reflects the distribution of the bank's loan portfolio:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate Loans	263,990	35.30
Commercial Loans	108,194	14.47
Residential Real Estate Loans	231,372	30.94
Consumer Loans	111,529	14.92
Agriculture	32,676	4.37
<b>Total</b>	<b>747,761</b>	<b>100.00</b>

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs in its assessment areas. Austin Bank's Tier 1 Capital level is \$72 million representing 7.18% of adjusted average assets as of September 30, 2008. The bank's CRA performance was last evaluated as of November 30, 2005, with the overall level of performance rated "Satisfactory."

## Description of Assessment Areas

### Jacksonville Area

The Jacksonville Area assessment area (AA) consists of Cherokee and Nacogdoches counties. It also includes one census tract (CT) in Panola County (9506) and four CTs in Shelby County (9501, 9502, 9503, and 9504). There are 28 CTs in this assessment area with only one low-income CT, five moderate-income CTs, twenty middle-income, and two upper income CTs. This assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low or moderate-income geographies.

The following table provides a description of the Jacksonville Area AA based on census data and 2007 Department of Housing and Urban Development information.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
Population	
Number of Families	32,604
Number of Households	47,100
Geographies	
Number of Census Tracts/BNA	28
% Low-Income Census Tracts/BNA	3.57
% Moderate-Income Census Tracts/BNA	17.86
% Middle-Income Census Tracts/BNA	71.43
% Upper-Income Census Tracts/BNA	7.14
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	36,380
2007 HUD-Adjusted MFI	41,800
Economic Indicators	
Unemployment Rate	3.74
2007 Median Housing Value	59,715
% of Households Below Poverty Level	20.29

The Jacksonville area has a combined population of 127,540. Six of the bank's branches and ATMs are located in this assessment area with 29% of the total bank deposits. Several other institutions compete in this market with Austin Bank having the second largest market share of deposits with 16% of the area deposits. The area economy is considered stable. Major employers in Cherokee County include the Texas Department of Criminal Justice, Rusk State Hospital, medical related services and industries, and educational facilities. Major employers in Nacogdoches County include Stephen F. Austin State University, Pilgrims Pride, and Effective Teleservices. Based on a recent contact with a local business group, the primary need within the

area is for residential loans and commercial loans. This contact felt the local financial institutions were providing products and financing which help meet these needs.

### Longview MSA

The Longview MSA consists of Gregg, Upshur, and Rusk Counties and includes 40 census tracts (CTs). There are no low-income CTs, 8 moderate income CTs, 26 middle-income, and 6 upper income CTs. This assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low or moderate-income geographies.

The following table provides a description of the Longview MSA assessment area based on census data and 2007 Department of Housing and Urban Development information.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
Population	
Number of Families	50,974
Number of Households	71,013
Geographies	
Number of Census Tracts/BNA	40
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	20%
% Middle-Income Census Tracts/BNA	65%
% Upper-Income Census Tracts/BNA	15%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$40,970
2007 HUD-Adjusted MFI	\$47,500
Economic Indicators	
Unemployment Rate	2.87%
2007 Median Housing Value	\$66,674
% of Households Below Poverty Level	14.54%

The Longview MSA has a total population of 188,323. Ten of the bank's branches and ATMs are located in this assessment area with 35% of the total bank deposits. Numerous other institutions compete in this market with Austin Bank having the fourth largest market share of deposits with 8%. The area economy is considered stable to growing. Major employers include Good Shepherd Medical Center, Texas Eastman Company, and LeTourneau Inc. Based on a recent contact with a local business group, the primary need within the assessment area is for residential and commercial loans. The contact also noted the lack of available low and moderate income housing stock. This contact felt the local financial institutions were providing products and financing which help meet these needs.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank's performance under the lending test is satisfactory. The bank's loan-to-deposit ratio is strong and a majority of the bank's loans were within its designated assessment areas. The distribution of these loans by geography and by borrower income level reflects a reasonable penetration throughout the assessment areas.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio of Austin Bank is good given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 83.56% since the prior CRA examination in November of 2005. The average loan-to-deposit ratio of banks within the assessment area, regardless of size, for the same time period, was 65.78%.

Institution	Assets (000s) (as of 6/30/08)	Average LTD Ratio
Austin Bank, Jacksonville	994,431	83.56%
Citizens First Bank, Tyler	601,745	81.48%
Citizens National Bank, Henderson	799,940	54.99%
Commercial Bank of Texas, NA, Nacogdoches	312,938	58.74%
First State Bank and Trust Company, Carthage	349,453	33.76%
Southside Bank, Tyler	2,153,978	59.96%
Texas Bank and Trust Company, Longview	1,046,594	88.00%

### Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed all residential purchase loans and a sample of 20 commercial loans which originated during 2006, 2007, and year to date 2008. The breakdown by loan category is illustrated in the following table.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	860	87.84	119	12.16	979	82,282	86.98	12,316	13.02	94,598
Commercial	17	85.00	3	15.00	20	3,196	57.74	2,339	42.26	5,535
Totals	877	87.79	122	12.21	999	85,478	85.36	14,655	14.64	100,133

Source: Data reported under HMDA; Data collected by the bank.

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

Austin Bank’s overall distribution of loans by income level of the borrower is satisfactory given the overall demographics of the bank’s assessment areas. The median cost of housing in the Jacksonville area is \$60M while a low-income person earns less than \$21M based on the HUD updated 2007 median family income. Additionally, over 20% of the households in the assessment area live below the poverty level. In the Longview MSA, the median cost of housing is \$67M with very limited low to moderate income housing stock available. Low-income persons in this AA earn less than \$24M with approximately 15% of the households living below the poverty level. Furthermore, competition for home mortgage products is strong with numerous bank, mortgage companies and financial institutions vying for these products. We considered these mitigating factors in our home mortgage lending analysis to low and moderate-income borrowers.

The distribution of home purchase loans by borrower income level is adequate in both the Jacksonville and Longview MSA assessment areas. The percentage of loans to low and moderate-income borrowers is below the percentage of low-income families in both assessment areas and is reflective of the factors discussed above.

<b>RESIDENTIAL REAL ESTATE</b>								
	<b>LOW INCOME BORROWERS</b>		<b>MODERATE INCOME BORROWERS</b>		<b>MIDDLE INCOME BORROWERS</b>		<b>UPPER INCOME BORROWERS</b>	
	% of AA Families	% of # Loans	% of AA Families	% of # Loans	% of AA Families	% of # Loans	% of AA Families	% of # Loans
Jacksonville Area AA	20.82	3.76	17.63	10.90	20.86	23.68	40.69	61.65
Longview MSA AA	20.29	3.70	17.87	6.67	21.63	13.33	40.22	76.30

Source: U.S. Census Data; Data reported under HMDA

The bank’s distribution of loans to small businesses is good. The percentage of loans to businesses with revenues of \$1 million or less exceeds the percentage of businesses with revenues of \$1 million or less in the Jacksonville Area AA. In the Longview MSA AA, the percentage of loans to businesses with revenues of \$1 million or less is equal to the percentage of businesses with revenues of \$1 million or less.

<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES/FARMS IN THE JACKSONVILLE AREA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	55.14	3.10	41.76	100%
% of Bank Loans in AA by #	71.43	28.57	0	100%
% of Bank Loans in AA by \$	61.54	38.46	0	100%

Source: Loan sample; Dun and Bradstreet data.

<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES/FARMS IN THE LONGVIEW MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	59.82	3.82	36.36	100%
% of Bank Loans in AA by #	60.87	39.13	0	100%
% of Bank Loans in AA by \$	37.64	62.36	0	100%

Source: Loan sample; Dun and Bradstreet data.

### Geographic Distribution of Loans

Austin Bank’s overall distribution of loans by income level of the geography is good. Geographic distribution for home purchase loans and loans to businesses is good in the Jacksonville area AA. In the Longview MSA AA, the geographic distribution for home purchase loans is also good and satisfactory for loans to businesses.

#### Jacksonville Area

The geographic distribution of home purchase loans is good. The distribution of loans in both the low and moderate-income tracts exceeds the percentage of owner-occupied housing units in these tracts.

<b>JACKSONVILLE AREA AA - RESIDENTIAL REAL ESTATE</b>							
LOW INCOME GEOGRAPHIES		MODERATE INCOME GEOGRAPHIES		MIDDLE INCOME GEOGRAPHIES		UPPER INCOME GEOGRAPHIES	
% Owner Occupied Units	% of # Loans	% Owner Occupied Units	% of # Loans	% Owner Occupied Units	% of # Loans	% Owner Occupied Units	% of # Loans
1.50	1.82	7.89	19.71	79.32	71.53	11.30	6.93

Source: U.S. Census Data; Data reported under HMDA

The geographic distribution of loans to businesses is good. The percentage of business loans made in the low and moderate-income tracts exceeds the percentage of businesses located in these tracts.

<b>JACKSONVILLE AREA AA - BUSINESS LOANS</b>							
LOW INCOME GEOGRAPHIES		MODERATE INCOME GEOGRAPHIES		MIDDLE INCOME GEOGRAPHIES		UPPER INCOME GEOGRAPHIES	
% of Businesses	% of # Loans	% of Businesses	% of # Loans	% of Businesses	% of # Loans	% of Businesses	% of # Loans
2.24	9.52	14.28	38.10	72.60	47.62	10.88	4.76

Source: Data collected by bank; U.S. Census data.

#### Longview MSA



The geographic distribution of home purchase loans is good. There are no low income tracts in this assessment area. The percentage of loans in the moderate-income tracts slightly exceeds the percentage of owner occupied units in the moderate-income tracts.

<b>LONGVIEW MSA AA RESIDENTIAL REAL ESTATE</b>							
LOW INCOME GEOGRAPHIES		MODERATE INCOME GEOGRAPHIES		MIDDLE INCOME GEOGRAPHIES		UPPER INCOME GEOGRAPHIES	
% Owner Occupied Units	% of # Loans	% Owner Occupied Units	% of # Loans	% Owner Occupied Units	% of # Loans	% Owner Occupied Units	% of # Loans
0	0	12.35	14.94	69.55	68.18	18.10	16.88

Source: U.S. Census Data; Data reported under HMDA

The geographic distribution of loans to businesses is adequate. The percentage of loans in the moderate-income tracts is near to the percentage of businesses in the moderate-income tracts.

<b>LONGVIEW MSA AA BUSINESS LOANS</b>							
LOW INCOME GEOGRAPHIES		MODERATE INCOME GEOGRAPHIES		MIDDLE INCOME GEOGRAPHIES		UPPER INCOME GEOGRAPHIES	
% of Businesses	% of # Loans	% of Businesses	% of # Loans	% of Businesses	% of # Loans	% of Businesses	% of # Loans
0	0	21.70	17.39	59.36	56.52	18.94	26.09

Source: Data collected by bank; U.S. Census data.

### Responses to Complaints

There have been no CRA related complaints received during this evaluation process.

### Fair Lending or Other Illegal Credit Practices Review

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

### COMMUNITY DEVELOPMENT TEST

The bank’s overall performance under the community development test is satisfactory. The bank has provided a satisfactory level of community development services, investments and loans in its assessment areas.

### Number and Amount of Community Development Loans

Austin Bank has an adequate level of community development loans in its assessment areas. During this evaluation period, the bank had 2 loans totaling approximately \$550M that qualified as community development. The bank also provides loans to cities and communities in its assessment areas to provide city services and equipment.

### **Number and Amount of Qualified Investments**

Austin Bank has provided an adequate level of community development investments in its assessment areas. During this evaluation period, the bank made 78 qualified investments totaling \$210M. Investments include donations to local organizations that provide community services. Additionally, the bank continues its original investment of \$1 million in its wholly owned community development corporation (CDC) which offers an affordable loan program to low and moderate income individuals. There have been 16 loans totaling \$855M funded through the CDC during this examination period. Bank management has committed to invest additional monies in the future as needed.

### **Extent to Which the Bank Provides Community Development Services**

Austin Bank has provided a good level of community development services throughout its assessment areas. The delivery systems of the bank are reasonably accessible to geographies and individuals of different income levels in its assessment areas. The bank operates 28 banking offices that are conveniently located in each assessment area. Additionally, a wide range of financial services are provided at each branch and are consistent throughout the bank's branch network. The bank offers ATMs at each branch location as well as offering telephone and Internet banking services, ACH deposits, and low cost checking accounts.

In addition to retail banking services, the bank provides other community development services. These include participating in grants that provide down payment and closing costs assistance and roof repair costs to low- and moderate-income homebuyers. Additionally, bank officers are active in numerous local organizations that promote community development.

### **Responsiveness to Community Development Needs**

The bank has demonstrated a satisfactory responsiveness to community development needs throughout its assessment areas. Austin Bank has established itself as a competitive lender and depository bank by offering products and services which meet the needs of all individuals and geographies, regardless of income levels. Additionally, Austin Bank officers and employees are actively involved in community organizations as well as organizations designed to retain and establish businesses in the area that are vital in providing jobs and stability to the local economy.