



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 10, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lubbock National Bank
Charter Number: 16752

4811 50th Street
Lubbock, TX 79493-0000

Office of the Comptroller of the Currency

LUBBOCK (WEST TEXAS) Field Office
5225 South Loop 289 Suite 108
Lubbock, TX. 79424-1319

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Needs to Improve.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Needs to Improve.

Lubbock National Bank (LNB) has a Satisfactory record of performance under the criteria to evaluate the Lending Test as shown by the following factors:

- LNB's loan-to-deposit ratio is reasonable for the bank's size and location when compared to other banks in LNB's assessment areas (AAs). The average loan-to-deposit ratio since the last examination has been 77.66 percent.
- A substantial majority of the loans originated are within the bank's AAs. Based on our review, 87.57 percent of the number and 85.88 percent of the dollars of loans were to borrowers within the AAs.
- Lending performance to borrowers of different income levels and to businesses of different sizes is reasonable.
- There is a reasonable dispersion of loans by geographic distribution throughout the AAs.

LNB's performance under the Community Development Test reflects poor responsiveness to the needs of the AAs.

Scope of Examination

Our examination and this resulting Performance Evaluation were completed to evaluate LNB's record of meeting the credit needs of the AAs that the bank serves. We used guidance for Intermediate Small Banks as the basis for our review. This includes a Lending Test and a Community Development Test. The Lending Test evaluates the bank's record of meeting the credit needs in each of its AAs through various loan products offered in those areas. The Community Development Test evaluates the bank's record of making community development loans, funding qualified investments, and performing community development service activities. The evaluation period for this examination is from the previous CRA examination dated September 8, 2005 through October 31, 2009.

- Our examination included a full-scope evaluation for the Lubbock, TX Metropolitan Statistical Area (MSA) AA and for the College Station-Bryan, TX MSA AA. These areas include nine of the bank's ten offices, including the main office. Approximately 95 percent of the deposits and the loans are also originated in these two AAs. The examination for the Austin-Round Rock, TX MSA AA was performed on a limited-scope basis as only one of the bank's offices is located in that AA, and only about 5 percent of loans or deposits are attributed to that branch.

- Comparisons for the Lending Test included the most recent available demographic data. We tested a total of 1,529 loans, which includes 1,453 HMDA reportable loans and 76 small business loans from the three AAs. Our review of loan originations showed the following primary products for each AA:

<u>Assessment Area</u>	<u>Primary Loan Type(s)</u>
Lubbock, TX MSA AA	Loans to small businesses; HMDA
College Station-Bryan, TX MSA AA	Loans to small businesses; HMDA
Austin-Round Rock, TX MSA AA	Loans to small businesses

- Conclusions about the bank’s Lending Test are based on a review of samples of the bank’s primary loan products in each AA. We reviewed a sample of loans to small businesses as a primary product in all AAs from January 1, 2007 through October 31, 2009. In addition, we placed reliance on the accuracy of the bank’s reported Home Mortgage Disclosure Act (HMDA) data, and we used data from January 1, 2005 through October 31, 2009 to evaluate the home mortgage loans for the Lubbock, TX MSA AA and the College Station-Bryan, TX MSA AA. HMDA reported loans are not a primary product for the Austin-Round Rock, TX MSA AA.
- Conclusions about the bank’s Community Development Test are based on qualified investments, community services, and loans that were originated or performed in the bank’s AAs and that meet the definition of community development activities. This review covered the period from the prior CRA examination in September 2005 through October 31, 2009.

Description of Institution

LNB is a \$709 million intrastate institution that is headquartered in Lubbock, TX in the South Plains area of the state. LNB is a wholly owned subsidiary of Commerce National Financial Services, Inc. (CNFS). As of December 31, 2008, CNFS’s assets totaled \$619 million, with LNB comprising 99.9 percent of those assets.

LNB has 10 offices and operates 11 automated teller machines (ATMs) in three AAs. Six locations, including the main banking office, are in the Lubbock, TX MSA AA. Three offices are located in the College Station-Bryan, TX MSA AA, and one office is in the Austin-Round Rock, TX MSA AA. All four of the offices located outside the Lubbock, TX MSA AA are marketed under the name of Commerce National Bank, a branch of Lubbock National Bank.

This office assigned a “Satisfactory” rating under Intermediate Small Bank criteria in the prior Public Evaluation dated September 8, 2005. Since that evaluation, LNB has opened three branches. The two branches opened in Lubbock and Bryan are situated in middle-income census tracts (CTs), and the branch opened in College Station is situated in an upper-income CT.

As of September 30, 2009, LNB had total assets of \$709 million, with loans comprising 64.2

percent of this total. LNB is primarily a commercial lender, and loan volumes are concentrated in commercial loans and commercial real estate development loans. The bank is a Preferred SBA lender. LNB also originates mortgage loans and consumer loans. The mortgage department originates conventional, FHA, and VA residential loans which are sold into the secondary market. The following table reflects the composition of the bank's loan portfolio as of September 30, 2009.

Loan Portfolio Composition		
Loan Category	\$ (000)	%
Commercial Real Estate	172,380	37.90
Commercial and Industrial	96,035	21.12
Construction	85,455	18.79
Residential Real Estate	72,388	15.92
Consumer	10,509	2.31
Multi-Family Real Estate	8,521	1.87
Agricultural Production	1,185	0.26
Agricultural Real Estate	707	0.16
Other	7,610	1.67
Total	454,790	100.00

Source: September 30, 2009 Report of Condition and bank records

LNB provides a wide range of traditional deposit and loan products. The branches are generally located in areas that make them accessible to persons from different locations within the communities they serve. Lobby hours and drive-up hours are set by location to meet customer needs, and LNB has ATMs at branches and other locations to make customer accounts accessible. The following table reflects the composition of the bank's banking and ATM locations in all AAs.

Distribution of Bank Offices and ATMs by Census Tract						
Census Tract Income Level	Tracts		Full-Service Branches		Automated Teller Machines*	
	#	%	#	%	#	%
Low	23	6.39	0	0.00	0	0.00
Moderate	103	28.61	1	10.00	2	18.19
Middle	144	40.00	4 **	40.00	4	36.36
Upper	87	24.17	5	50.00	5	45.45
N/A	3	0.83	N/A	0.0	N/A	0.0
Total	360	100.00	10	100.0	11	100.0

Source: 2009 Census information

**Nine of the eleven ATMs are contiguous with banking locations and accept deposits*

***Includes one limited-service branch*

Customers may also access their accounts through telephone banking or via the Internet at www.lubbocknational.com or www.commercenatl.com. Internet and phone banking services include transfers between LNB accounts, review of balances and transactions, retrieving check copies, and bill-paying capability for the Internet banking product. The bank also offers a Visa Check Card that provides customers with additional access to their accounts at point of sale or ATM locations.

LNB's business strategy includes continued marketing of commercial credit to midsized

businesses where bank management feels it is best suited to meet the customer needs through its products, staff, and locations. Products such as the streamlined SBA program, small ticket lease financing, remote deposit capture, and the bank's in-house accounts receivable factoring program are benefits that LNB can provide to small businesses. In addition, the bank's mortgage lending activities have recently been revitalized, and consumer real estate mortgage services have been more heavily marketed. As a result, home mortgage originations have increased significantly in 2009.

The bank reported more than \$51 million in Tier 1 capital as of September 30, 2009. This represents 7.54 percent of adjusted average assets. Given LNB's products and services and accessibility to customers, the bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

The AAs are reasonable in that a substantial majority of the bank's loans are made to borrowers within these areas, and all of the bank's offices are located within the AAs. The AAs do not arbitrarily exclude low- and moderate-income areas. The following comment provides information regarding the AAs, and further information can be obtained from the bank's public file.

Description of Assessment Areas

The Lubbock, TX MSA AA contains six of the bank's ten offices, including the main office. The College Station-Bryan, TX MSA AA contains three of the remaining offices. We performed a limited-scope evaluation for the Austin-Round Rock, TX MSA AA, which has one branch location.

Lubbock, TX MSA AA

The AA consists of two contiguous counties, Lubbock County and Crosby County. The AA is located in the South Plains area of Texas. The city of Lubbock (population 207,680) is the county seat of Lubbock County and the largest city in the MSA. Crosby County is located east of Lubbock County, and Crosbyton (population 1,614) is the county seat. All of the bank's offices within this MSA are located within the city of Lubbock. Demographic information from the 2000 Census is reflected on the following chart.

Demographic and Economic Characteristics of Lubbock, TX MSA AA	
Population	249,700
Number of Families	62,550
Number of Households	92,205
Geographies	
Number of Census Tracts/BNA	64
% Low-Income Census Tracts/BNA	1.56
% Moderate-Income Census Tracts/BNA	32.81
% Middle-Income Census Tracts/BNA	42.19
% Upper-Income Census Tracts/BNA	23.44
Median Family Income (MFI)	
2000 MFI for AA	40,724
2009 HUD-Adjusted MFI	52,900
2008 HUD-Adjusted MFI	50,200
2007 HUD-Adjusted MFI	48,900
2006 HUD-Adjusted MFI	48,500
2005 HUD-Adjusted MFI	47,000
Economic Indicators	
Unemployment Rate	2.94
2009 Median Housing Value	63,832
% of Households Below Poverty Level	18.33

Source: 2000 Census data and updated HUD income data

The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA is comprised of 64 CTs, consisting of 1 low-income tract, 21 moderate-income tracts, 27 middle-income tracts, and 15 upper-income tracts, with a total population of 249,700. The 2000 Census data reflects that 18.33 percent of the households in the AA are below the poverty level.

According to the 2000 Census data, there are 103,797 total housing units in the AA, of which 54.4 percent are owner-occupied, 37.1 percent are renter-occupied, and 8.5 percent are vacant. Approximately 21 percent of families in the AA are considered low-income. Moderate-income families approximate 17.9 percent, while middle- and upper-income families make up the remaining 61.1 percent. The updated median housing value is \$69,212 with the median age of housing stock at 28 years.

All of the bank's offices in this MSA are located in middle- and upper-income tracts. With only one CT designated as low-income, LNB's opportunity to lend in the tract is somewhat limited. It should also be noted that the single low-income tract is currently undergoing redevelopment, resulting in the demolition of the majority of existing homes and structures which are being replaced with new one-to-four family residences, apartments, and new businesses. This redevelopment will significantly reduce the number of low- and moderate-income residents in that area.

While Lubbock's population has continued to grow over the last 10 years, the economy has

slowed in 2008 and 2009. The Lubbock Economic Index (LEI) for September 2009 indicates the Lubbock economy has been on the decline for 12 consecutive months, and virtually all sectors of the Lubbock economy point to an ongoing recession. Despite these negative trends, Lubbock's economy continues to outperform the rest of the state and the US in general. Lubbock's current unemployment rate at 5.7 percent is above historical levels, but remains the lowest in the state and well below the national rate of 9.5 percent.

The area is primarily reliant on agriculture, but Texas Tech University also contributes significantly to the economy. Primary employers are Covenant Healthcare Systems, Texas Tech University, Texas Tech Health Sciences Center, University Medical System, and United Supermarkets. Despite the economic slow down, the unemployment rate is low. The local agricultural economy continues to be affected by declining government subsidies of agricultural products, and increased production and transportation costs. Government and professional jobs are increasing, as is the number of retirees in the community. Retirees are drawn to Lubbock by the lower cost of living and favorable overall weather conditions.

Lubbock has a lower level of owner-occupied housing than in other comparable cities, likely due to the population of college students. There are a large number of rental units, and bank management states that a high number of new construction projects have focused on building duplexes, etc., to house college students. Per the LEI, the average home sale price for 2009 has remained stable at \$132 thousand. However, housing prices are significantly below national averages, contributing to the incentive for individuals to move to the area. Generally, the cost of living, including housing, is below many areas nationally.

Deposits from customers within the Lubbock, TX MSA AA as of June 30, 2009 were \$495 thousand, or 87.1 percent of the bank's total deposits. For June 30, 2009, LNB's deposit market share in Lubbock was 9.25 percent. The bank is fifth in market share of deposits in the area. Other institutions have a total of 99 branches, reflecting a high level of competition in the AA. In Lubbock, PlainsCapital Bank had 19 percent of deposits, City Bank had 18 percent, and American State Bank had 12 percent. These institutions are all locally owned and have multiple branches within the AA. In addition, LNB faces significant competition from branches of large multi-national banks including Wells Fargo and Bank of America. Based on the September 30, 2009 consolidated balance sheet, 58.4 percent of the bank's loans are made within this AA. Excluding real estate loans, approximately 85 percent of the remainder of the portfolio also originated within this AA.

An individual in the community was interviewed for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. The individual indicated that there is an ongoing need for affordable housing for low- and moderate-income families. The individual stated that local institutions offer programs to meet this need. The individual did not identify any unmet credit needs in the area.

College Station-Bryan, TX MSA AA

In the College Station-Bryan, TX MSA AA, LNB operates under the name of Commerce National Bank, branch of Lubbock National Bank. The AA is comprised of three counties, Brazos, Burleson, and Robertson Counties. The AA is located 100 miles northwest of Houston and 120 miles east of Austin. There are three full-service branch locations in the AA with drive-up facilities and ATMs at the same locations. The College Station-Bryan, TX MSA AA demographic profile from the 2000 Census is shown in the following chart.

Demographic and Economic Characteristics of College Station-Bryan, TX MSA AA	
Population	184,885
Number of Families	39,687
Number of Households	67,686
Geographies	
Number of Census Tracts/BNA	40
% Low-Income Census Tracts/BNA	2.50
% Moderate-Income Census Tracts/BNA	30.00
% Middle-Income Census Tracts/BNA	47.50
% Upper-Income Census Tracts/BNA	17.50
% N/A Census Tracts/BNA	2.50
Median Family Income (MFI)	
2000 MFI for AA	43,916
2009 HUD-Adjusted MFI	56,100
2008 HUD-Adjusted MFI	55,800
2007 HUD-Adjusted MFI	51,000
2006 HUD-Adjusted MFI	52,300
2005 HUD-Adjusted MFI	50,700
Economic Indicators	
Unemployment Rate	4.04
2009 Median Housing Value	81,959
% of Households Below Poverty Level	26.04

Source: 2000 Census data and updated HUD income data

The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA is comprised of 40 CTs consisting of 1 low-income tract, 12 moderate-income tracts, 19 middle-income tracts, 7 upper-income tracts, and 1 N/A tract, with a total population of 184,885. The 2000 Census data reflects that 26.04 percent of the households in the AA are below the poverty level.

According to the 2000 Census data, there are 75,094 total housing units in the AA, of which 46.1 percent are owner-occupied, 44 percent are renter-occupied, and 9.9 percent are vacant. Approximately 23.9 percent of families in the AA are considered low-income. Moderate-income families approximate 16.5 percent, while middle- and upper-income families make up the remaining 59.6 percent. The updated median housing value is \$87,090 with the median age of housing stock at 21 years.

The AA experienced rapid growth from 2004-2008. Based on information provided through the

Bryan/College Station Economic Index (BEI) for September 2009, the local economy experienced a peak in September of 2008, marking the end of the growth cycle. Since that time, retail and employment sectors continue to worsen. Travel and tourism stimulus is on the wane. Construction activity remains sharply lower, and housing sales are on the decline. However, new housing construction showed a positive improvement over 2008. The current unemployment rate at 6.5 percent is up over two full points compared to a year ago, but compares favorably to the state and national unemployment rates.

Like the Lubbock, TX MSA AA, this AA also benefits from a large university. Texas A&M University, with a student body of more than 45,000, is located in this MSA. A number of businesses employing persons with doctorate degrees and a number of research firms have started in the AA. Major employers include Texas A&M University, St. Joseph Health System, Bryan and College Station Independent School Districts, Sanderson Farms, and Reynolds & Reynolds (computer hardware/software).

Two of the bank's three branches in this AA are located in middle- and upper-income tracts. The third location is in a moderate-income tract. In the AA, only one tract is designated as low-income, and only 1.3 percent of households are located in that area. This limits the volume of lending opportunities available to the bank in that area. Owner-occupied housing is only 46 percent in the area, and rental occupied units represent 44 percent of housing available. This is consistent with the level of students in the area.

As of June 30, 2009, the bank ranked 15th out of 23 institutions in the AA, with \$47 million in deposits or 1.52 percent of the deposit market share. In the AA, CitiBank had 19 percent, Wells Fargo had 16 percent, and Prosperity Bank had 15 percent of deposits. The 22 institutions in the AA, not including LNB, operate a total of 61 branches, reflecting a significant level of competition for deposits. Approximately 18 percent of the bank's loans and 10 percent of total deposits are within this AA. Excluding real estate loans, approximately 10 percent of the balance of the portfolio originated within this AA.

An individual in the community was interviewed for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. The individual did not identify any unmet credit needs in the area. The individual stated that there are a number of entities in the AA that provide or support affordable housing for low- and moderate-income families. The individual reported that the volume of construction, both for residential and commercial purposes, has declined in line with the overall slowing of the economy.

Austin-Round Rock, TX MSA AA

In the Austin-Round Rock, TX MSA AA, LNB operates under the name of Commerce National Bank, branch of Lubbock National Bank. The AA is comprised of 5 counties with 256 CTs. There is one full-service branch location in the AA with drive-up facilities and an ATM at the same location. In this AA, management reports the bank's primary loan product is commercial real estate development, and deposit levels are low. The Austin-Round Rock, TX MSA AA demographic profile from the 2000 Census is detailed in the following chart.

Demographic and Economic Characteristics of Austin-Round Rock, TX MSA AA	
Population	1,249,763
Number of Families	298,622
Number of Households	472,085
Geographies	
Number of Census Tracts/BNA	256
% Low-Income Census Tracts/BNA	8.20
% Moderate-Income Census Tracts/BNA	27.34
% Middle-Income Census Tracts/BNA	38.28
% Upper-Income Census Tracts/BNA	25.39
% N/A Census Tracts/BNA	0.78
Median Family Income (MFI)	
2000 MFI for AA	59,438
2009 HUD-Adjusted MFI	73,300
2008 HUD-Adjusted MFI	69,100
2007 HUD-Adjusted MFI	69,300
2006 HUD-Adjusted MFI	69,600
2005 HUD-Adjusted MFI	68,600
Economic Indicators	
Unemployment Rate	2.22
2009 Median Housing Value	131,505
% of Households Below Poverty Level	10.33

Source: 2000 Census data and updated HUD income data

The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. Within the AA, 35.54 percent of the 256 CTs are considered low- or moderate income. The 2000 Census data reflects that 10.33 percent of the households within the AA are below poverty level.

According to 2000 Census data, the AA has a total population of 1.2 million. There are 496,004 housing units in the AA, of which 55.4 percent are owner-occupied, 39.7 percent are renter-occupied, and 4.9 percent are vacant. Approximately 19.8 percent of families in the AA are considered low-income. Moderate-income families approximate 18.3 percent, while middle- and upper-income families make up the remaining 61.9 percent. The updated median housing value is \$145,809 with the median age of housing stock at 17 years.

Like the previously discussed AAs, the Austin-Round Rock, TX MSA AA is also experiencing negative economic trends. The local economy is heavily dependent on state, city, and federal government activities and the University of Texas (UT). UT has a history of a high level of patents coming from its research program, and there is ongoing demand for technical and professional expertise. The largest private employers in the area include H-E-B Grocers, Seton Healthcare Network, and three major computer hardware/software/technology companies. The average sales price for a home has declined to \$243 thousand. The unemployment rate continues to compare favorably to state and national unemployment rates, but it is up significantly from previous years at 7.2 percent.

LNB's deposit market share in the Austin-Round Rock, TX MSA AA is low at 0.12 percent. The

bank ranks 50th out of 73 financial institutions reporting insured deposits as of June 30, 2009. Primary holders of deposits in the area are Bank of America, Wells Fargo, and JP Morgan Chase with a total of 165 banking locations within the AA. Other insured institutions operate a total of 304 locations, and LNB management states that the area also has a number of credit unions. Management reports that the large multi-national institutions are the primary deposit institutions because of the convenience of multiple locations. LNB has tried to provide some community bank advantages to mid-size commercial borrowers in the AA. Approximately 23.8 percent of the bank's loans and 5 percent of total deposits are within this AA. Excluding real estate loans, 4.9 percent of the bank's loans are made within this AA.

Conclusions with Respect to Performance Tests

LENDING TEST

LNB's performance under the Lending Test is rated Satisfactory.

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio, since the last CRA examination, is reasonable considering the bank's size, financial condition, and the credit needs of the AAs. We based this conclusion on the bank's average LTD ratio as compared to that of other banks of similar size in LNB's AAs, as depicted in the following table. LNB had an average LTD ratio of 77.66 percent, with a high of 83.2 percent and a low of 68.3 percent during the evaluation period. Please note that these banks are listed alphabetically by city, and no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets \$ (000's) (As of 9/30/09)	Average Loan-to-Deposit Ratio
The First National Bank of Bastrop	296,101	64.86
American State Bank, Lubbock	2,341,593	49.91
City Bank, Lubbock	1,890,709	111.85
First Bank & Trust Company, Lubbock	468,496	91.08
Lubbock National Bank	708,868	77.66
American Bank of Commerce, Wolfforth	687,616	85.17

Source: Institution Reports of Condition from September 2005 to September 2009

Lending in Assessment Area

LNB's lending in its AAs exceeds the standards for satisfactory performance. A substantial majority of the bank's loans were made to borrowers within its AAs. In order to assess performance for this criterion, we reviewed 76 commercial loans originated since January 1, 2007, as well as 1,002 home purchase, 104 home improvement, and 347 home refinance loans originated between January 2005 and October 30, 2009. Our analysis determined that 87.57 percent of the number of loans and 85.88 percent of the dollar amount of loans in the sample were originated within the bank's AAs. The breakdown by loan category is depicted in the following table.

Lending in All Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	66	86.84%	10	13.16%	100.0	\$48,312,372	85.88%	\$7,943,254	14.12%	100.0
Home Purchase	867	86.53%	135	13.47%	100.0	\$105,302	83.15%	\$21,339	16.85%	100.0
Home Improvement	98	94.23%	6	5.77%	100.0	\$4,330	97.46%	\$113	2.54%	100.0
Refinancings	308	88.76%	39	11.24%	100.0	\$50,719	88.85%	\$6,365	11.15%	100.0
Totals	1,339	87.57%	190	12.43%	100.0	\$48,472,723	85.88%	\$7,971,071	14.12%	100.0

Source: Sample of bank loans used for CRA performance analysis and HMDA data

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

The distribution of loans made to individuals and families of different income levels and to businesses of different sizes is reasonable. We placed emphasis on lending to small businesses in reaching our conclusion about bank performance for this criterion.

Lubbock, TX MSA AA

The distribution of loans originated to businesses with revenues less than \$1 million is in line with the percentage of businesses in the AA with revenues less than \$1 million. The percentage of businesses within the AA that generate revenues less than \$1 million is 64.98 percent based on U.S. Census data. LNB originated 61.90 percent of its total business loans to businesses with revenues less than \$1 million. This level is in line with the demographic composition of the AA and reflects a reasonable penetration of loans to small businesses. The following table shows the distribution of commercial loans among businesses of different sizes in this AA.

Borrower Distribution of Business Loans in Lubbock, TX MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	64.98%	4.29%	30.73%	100%
% of Bank Loans in AA by #	61.90%	19.05%	19.05%	100%
% of Bank Loans in AA by \$	17.43%	81.61%	0.96%	100%

Source: Loan sample; U.S. Census data

LNB makes a reasonable level of residential loans to borrowers of different income levels. Residential loans to low-income borrowers are significantly below the percentage of low-income families in the AA. The percentage of home loans to moderate-income borrowers is lower than the level of moderate-income families in the AA. Approximately 21.02 percent of families are low-income, and 17.88 percent are moderate-income. Based on the updated median family income for the area of \$52,900, low-income families in the AA earn less than \$26,450 per year, and 12.34 percent of families in the AA are below poverty level. Based on 2000 Census data, the median housing cost is \$63,832. It is often difficult for low- and moderate-income individuals to qualify for mortgage loans at median housing values due to insufficient income levels and/or funds for down payments. To assist low- and moderate-income applicants in various counties in the South Plains, LNB participates with eight other lenders in a \$7.5 million

special mortgage financing program through the Lubbock and South Plains Housing Finance Corporations.

The following table reflects the analysis of HMDA reportable loans for 2005 through October 30, 2009.

Borrower Distribution of Residential Real Estate Loans in Lubbock, TX MSA AA								
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
Home Purchase	21.02%	5.19%	17.88%	15.03%	20.74%	20.75%	40.36%	59.03%
Home Improvement	21.02%	0.00%	17.88%	5.62%	20.74%	11.24%	40.36%	83.15%
Refinancings	21.02%	1.83%	17.88%	7.34%	20.74%	14.22%	40.36%	76.61%

Source: HMDA data; U.S. Census data

College Station-Bryan, TX MSA AA

The distribution of loans originated to businesses with revenues less than \$1 million is well above the percentage of businesses in the AA with revenues less than \$1 million. The percentage of businesses within the AA that generate revenues less than \$1 million is 60.12 percent based on U.S. Census data. LNB originated 85.71 percent of its total business loans to businesses with revenues less than \$1 million. This level exceeds the demographic composition of the AA and reflects an excellent penetration of loans to small businesses. The following table shows the distribution of commercial loans among businesses of different sizes in this AA.

Borrower Distribution of Business Loans in College Station-Bryan, TX MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	60.12%	3.47%	36.40%	100%
% of Bank Loans in AA by #	85.71%	14.29%	0.00%	100%
% of Bank Loans in AA by \$	58.14%	41.86%	0.00%	100%

Source: Loan sample; U.S. Census data

Residential loans to low-income borrowers are lower than the percentage of low-income families in the AA. Also, the percentage of loans to moderate-income borrowers is lower than the level of moderate-income families in the AA. Approximately, 23.88 percent of families are low-income, and 16.53 percent are moderate-income. Based on the updated median family income for the area of \$56,100, low-income families in the AA earn less than \$28,050 per year. In addition, roughly 14.26 percent of families in the AA are below poverty level. Based on 2000 Census data, the median housing cost is \$81,959. It is often difficult for low- and moderate-income individuals to qualify for mortgage loans at median housing values due to insufficient income levels and/or funds for down payments.

The following table reflects the analysis of HMDA reportable loans for 2005 through October 30, 2009.

Borrower Distribution of Residential Real Estate Loans in College Station-Bryan, TX MSA AA								
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
Home Purchase	23.88%	2.49%	16.53%	6.64%	18.30%	15.35%	41.29%	75.52%
Home Improvement	23.88%	0.00%	16.53%	0.00%	18.30%	0.00%	41.29%	100.00%
Refinancings	23.88%	0.00%	16.53%	7.04%	18.30%	12.68%	41.29%	80.28%

Source: HMDA data; U.S. Census data

Austin-Round Rock, TX MSA AA Limited-Scope Review

Based on a limited-scope review, the bank’s lending performance for businesses of different sizes in the Austin-Round Rock, TX MSA AA is not inconsistent with the bank’s overall performance.

Geographic Distribution of Loans

LNB’s geographic loan distribution is satisfactory. Performance for small business and residential lending reflects a reasonable dispersion throughout the AA.

Lubbock, TX MSA AA

Geographic distribution of small business loans in this AA is adequate. The geographic distribution of sampled small business loans in low-income CTs is somewhat lower than the percentage of small businesses in these areas. The percentage of businesses located in low-income CTs is 0.54 percent, and our loan sample reflected zero small business loans located in low-income CTs. The distribution of sampled loans to small businesses in moderate-income CTs is also somewhat below the percentage of small businesses in these areas. The percentage of businesses located in moderate-income CTs is 23.15 percent, and our loan sample reflected that 19.05 percent of small business loans were located in moderate-income CTs. The following table summarizes the distribution of small business loans by CT income level.

Geographic Distribution of Loans to Businesses in Lubbock MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0.54%	0.00%	23.15%	19.05%	43.08%	42.86%	33.23%	38.10%

Source: Loan sample; U.S. Census data

Geographic distribution of residential loans in the Lubbock, TX MSA AA is adequate. The percentage distribution of residential loans is lower than the percentage of owner-occupied housing units in low-income CTs. In the AA, only 0.26 percent of owner-occupied housing units

are located in low-income geographies. This results in limited opportunities to make mortgage loans in these geographies. The percentage distribution of mortgage loans is somewhat lower than the percentage of owner-occupied housing units in moderate-income CTs, but the performance for home purchase loans in moderate-income tracts is near to the level of owner-occupied houses in those tracts.

The following table reflects the analysis of residential loans for 2005 through October 30, 2009.

Geographic Distribution of Residential Real Estate Loans in Lubbock MSA								
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
Home Purchase	0.26%	0.00%	23.78%	18.52%	43.81%	36.86%	32.15%	44.62%
Home Improvement	0.26%	0.00%	23.78%	15.22%	43.81%	28.26%	32.15%	56.52%
Refinancings	0.26%	0.45%	23.78%	6.31%	43.81%	41.89%	32.15%	51.35%

Source: HMDA data; U.S. Census data

College Station-Bryan, TX MSA AA

Overall, geographic dispersion of small business loans across the College Station-Bryan, TX MSA AA is excellent. The geographic distribution of sampled small business loans in low-income CTs is somewhat lower than the percentage of small businesses in these areas. The percentage of businesses located in low-income CTs is 0.39 percent, and our loan sample reflected zero small business loans located in low-income CTs. Conversely, the distribution of sampled loans to small businesses in moderate-income CTs is significantly higher than the percentage of small businesses in these areas. The percentage of businesses located in moderate-income CTs is 1.33 percent, and our loan sample reflected that 9.52 percent of small business loans were located in moderate-income CTs. The following table summarizes the distribution of small business loans by CT income level.

Geographic Distribution of Loans to Businesses in College Station-Bryan, TX MSA AA										
Census Tract Income Level	Unreported		Low		Moderate		Middle		Upper	
Loan Type	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans	% of AA Business	% of # of Loans
Business Loans	0.39%	0.00%	1.33%	9.52%	26.06%	0.00%	44.56%	23.81%	27.68%	66.67%

Source: Loan sample; U.S. Census data

LNB’s lending across geographic areas of the College Station-Bryan, TX MSA AA is excellent. Though the percentage distribution of residential loans is lower than the percentage of owner-occupied housing units in low-income CTs, only 0.06 percent of owner-occupied housing units are located in low-income geographies. This results in limited opportunities to make mortgage

loans in these geographies. The percentage distribution of mortgage loans is higher than the percentage of owner-occupied housing units in moderate-income CTs.

The following table reflects the analysis of residential loans for 2005 through October 30, 2009.

Geographic Distribution of Residential Real Estate Loans in College Station-Bryan, TX MSA AA								
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
Home Purchase	0.06%	0.00%	21.07%	29.96%	49.53%	31.41%	29.34%	38.63%
Home Improvement	0.06%	0.00%	21.07%	0.00%	49.53%	25.00%	29.34%	75.00%
Refinancings	0.06%	0.00%	21.07%	2.82%	49.53%	33.80%	29.34%	63.38%

Source: HMDA data, 2000 Census data

Austin-Round Rock, TX MSA AA Limited-Scope Review

Based on a limited-scope review, the bank’s lending performance for distribution of loans to small businesses in the Austin-Round Rock, TX MSA AA is not inconsistent with the bank’s overall performance.

Responses to Complaints

There have been no complaints related to the bank’s CRA performance during this evaluation period, and this has a neutral impact on the bank’s overall performance.

COMMUNITY DEVELOPMENT TEST

LNB’s performance under the Community Development Test is rated Needs to Improve.

Scope of Community Development Review

Our review of LNB’s program to meet the community development (CD) needs of its AAs considered both the level and effectiveness of the bank’s CD loans, qualified investments, and CD services in each of the AAs. Overall, the level and effectiveness of the bank’s CD performance in response to those needs has been poor. Fifteen loans originated in the Lubbock, TX MSA AA served a CD purpose because they were made to qualifying small businesses or provided low-income housing or other community services targeted to low- and moderate-income (LMI) persons. These loans totaled \$2.6 million, less than 1.0 percent of total loans and below the level of CD lending at the prior examination. No CD lending was reported in the bank’s other AAs. The level of qualified investments over the evaluation period was \$74 thousand and included \$70 thousand in the Lubbock, TX MSA AA, \$4 thousand in the College Station-Bryan, TX MSA AA, and none in the Austin-Round Rock, TX MSA AA. Reasonable levels of CD services were noted in the Lubbock, TX MSA AA, and a minimal level of CD services were reported in the College Station-Bryan, TX MSA AA. No CD services were

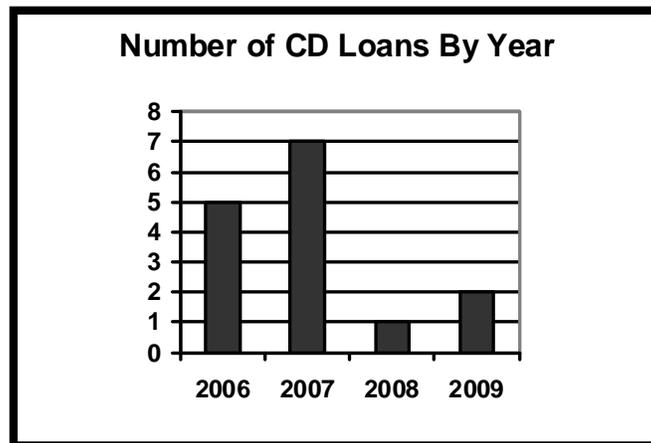
provided in the Austin-Round Rock, TX MSA AA.

Number and Amount of Community Development Loans

LNB originated 15 CD loans that totaled \$2.6 million throughout this evaluation period. The number and dollar impact is poor, and CD loans were only originated in the Lubbock, TX MSA AA. Most of the lending was conducted in the first half of the evaluation period, with very little CD lending in 2008 or 2009.

In the Lubbock, TX MSA AA, 13 of the 15 CD loans originated during the period financed small businesses that were in the City of Lubbock Enterprise Zone (EZ). By year, the qualifying loans in the EZ were as follows: five loans in 2006, six loans in 2007, one loan in 2008, and one loan in 2009. These loans helped revitalize or stabilize the EZ and funded business needs generally consistent with the City of Lubbock EZ plan.

The bank also made a \$645 thousand CD loan in 2007 to provide financing to the Lubbock Economic Development Alliance for housing. In 2009, a \$228 thousand loan was made to Coalition of Community Assistance Volunteers, Inc. that supported jobs for low-income clients of the organization.



The CD loan total of \$2.6 million is a significant decline from \$5.5 million reported at the prior examination. As depicted in the chart above, the level is significantly lower for the second half of this evaluation period with only three CD loans for 2008 and 2009. The volume of CD loans represents less than 1.0 percent of total loans at the bank.

LNB provided information on two loans outside the AA that did not qualify since proceeds from those loans did not have a potential to benefit the AA, and the bank did not reasonably meet needs within the AAs.

LNB did not report any CD-purpose lending in the Austin-Round Rock, TX MSA AA. The performance in this limited-scope area is not significantly different from that in the other AAs.

Number and Amount of Qualified Investments

The level of qualified investments was very low with 18 qualified investments that totaled \$104 thousand.

During the review period, LNB made 11 grants totaling \$53 thousand in the Lubbock, TX MSA AA and 4 grants totaling \$4 thousand in the College Station-Bryan, TX MSA AA. Three equity investments were made totaling \$47 thousand, of which \$18 thousand was funded in the current period, and \$29 thousand was funded in the prior period.

LNB's largest grants during the evaluation period were donations to the United Way of Lubbock that totaled \$38 thousand. Grants included \$5 thousand to help fund the Coalition of Community Assistance Volunteers, Inc. program to prepare tax returns for LMI persons and a three-for-one matching donation of \$5 thousand in association with the Federal Home Loan Bank.

Equity investments were made during 2005 through 2007 to the High Plains Community Capital, LLC. This organization provides non-traditional business loans and services that promote economic opportunities for LMI persons and/or areas by expanding small business opportunities, creating jobs, and/or increasing the supply of affordable housing. Eight banks agreed to contribute a total of \$1 million to the organization in 2003, and LNB's portion of that was \$100 thousand. LNB contributes their equity portion as loans are made and funded. During this period, LNB invested \$18 thousand and received a prior period credit of \$29 thousand.

LNB donated \$4 thousand to Habitat for Humanity in the College Station-Bryan, TX MSA AA to fund part of the cost of a home constructed for a LMI family.

The bank did not report any qualified investments in the Austin-Round Rock, TX MSA AA. The performance in this limited-scope area is not significantly different from that in the other AAs.

Extent to Which the Bank Provides Community Development Services

LNB's performance is adequate for CD services considering both delivery of retail products and the level of CD services provided by bank officers and personnel. The primary delivery system for products and services in the AAs is through the branches and ATMs available to the bank's customers. The distribution of the bank's branches and ATMs, and products and services provided, were discussed in the Description of Institution section of this Performance Evaluation. The locations of the branches and ATMs provide reasonable access to customers throughout the AAs.

Twelve CD services in the Lubbock, TX MSA AA were provided over the five years reviewed. One service was provided for the College Station-Bryan, TX MSA AA. The majority of these services were related to the program to prepare tax returns in the Lubbock, TX MSA AA for LMI persons and to teach financial education in various programs. These activities provide financial services targeted to LMI persons in these two AAs.

No CD services were provided in the Austin-Round Rock, TX MSA AA. Given the limited presence of LNB in the market, this performance is not inconsistent with performance in the

other AAs.

Responsiveness to Community Development Needs

LNB's responsiveness to the CD needs of its AAs has been poor. LNB has the resources to meet the needs in each AA. However, the Board and management have not identified, evaluated, and acted upon those needs, particularly in the AAs outside the Lubbock, TX MSA AA. The majority of CD activities were for small businesses or entities in the Lubbock, TX MSA AA, but even in that AA, the level of lending and investments has not been reasonable. Other financial institutions in the bank's AAs have been successful in making CD loans or qualified investments, indicating there is an opportunity to meet CD needs.

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.