

PUBLIC DISCLOSURE

March 8, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Lubbock National Bank
Charter Number 16752**

**4811 50th Street
Lubbock, Texas 79423**

**Office of the Comptroller of the Currency
Southwestern District
500 N. Akard, 1600 Lincoln Plaza
Dallas, Texas 75201-3394**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Lubbock National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 8, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **ASatisfactory.**@

- C The bank's loan-to-deposit ratio meets standards for satisfactory performance, averaging 53% from September 30, 1995, to December 31, 1998. The loan-to-deposit ratio for the quarter ending December 31, 1998, was 49%.
- C A majority of the loans sampled during the examination are within the bank's assessment area: 86% of the number of loans and 85% of the dollar volume.
- C Given the location of banking offices, the sample of loans reviewed during the examination reflects reasonable dispersion throughout the assessment area.
- C The lending pattern reflects a reasonable penetration among individuals of different income levels and a good penetration among businesses of different sizes.
- C There have been no consumer complaints regarding the bank's CRA performance.

The following table indicates the performance level of **Lubbock National Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Lubbock National Bank</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints regarding bank performance under the CRA have been received		

DESCRIPTION OF INSTITUTION

Lubbock National Bank (LNB) is in Lubbock, Texas, and reported total assets of \$243 million at December 31, 1998. LNB has three full-service banking locations in the Assessment Area (AA), which is the Lubbock MSA. All three locations have drive-up facilities. One of these locations was opened in 1998. LNB is principally owned by a one-bank holding company in Lubbock, Texas, and has no other affiliates.

The bank faces a high level of competition from other financial institutions within the assessment area. The primary business focus is commercial lending. Agricultural lending products are not offered by the bank due to a lack of expertise and experience with such products.

At December 31, 1998, LNB's loan portfolio totals \$109 million representing 45% of total assets. The following table provides a general breakdown of this loan portfolio in (\$000's).

LOAN TYPE	LOAN BALANCE	% OF PORTFOLIO
1-4 Family Residential	17,116	15.68%
Commercial Real Estate	20,175	18.48%
Commercial	37,558	34.40%
Construction & Land Development	5,933	5.43%
Loans to Individuals	23,680	21.69%
Other	4,723	4.32%
TOTAL	109,185	100.00%

The bank has no legal or financial impediments that interfere with its ability to make credit available in its assessment area. The last CRA rating is dated September 18, 1995, and the bank's performance was rated Satisfactory then. The evaluation period for this examination is from September 19, 1995, to March 8, 1999. Primary emphasis was placed on the full years of 1996-1998.

DESCRIPTION OF LUBBOCK ASSESSMENT AREA:

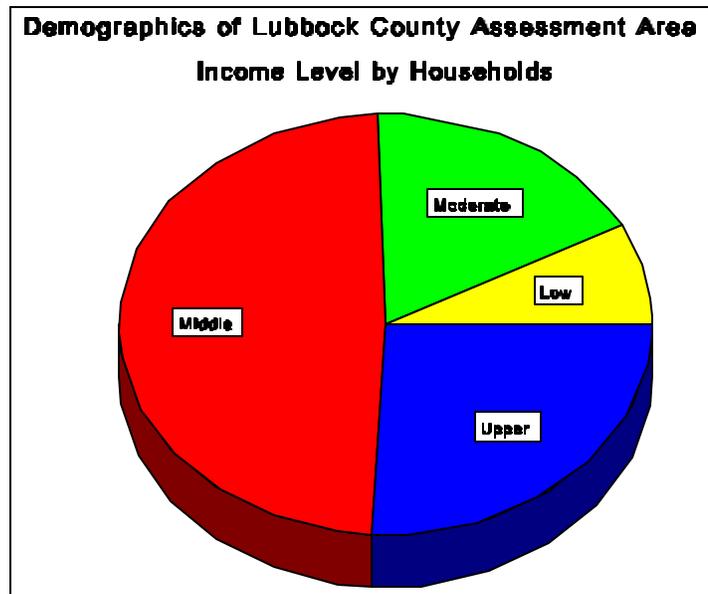
This examination evaluates LNB's performance in its primary AA, which is the Lubbock MSA. This MSA comprises Lubbock County. This assessment area meets the regulatory requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

LUBBOCK COUNTY

Lubbock County is about 320 miles west of Dallas, Texas, and includes the communities of Lubbock, Wolfforth, Idalou, Slaton, Shallowater and New Deal.

The total population of the county is 222,636 including the city of Lubbock with an estimated 186,206 people. Information obtained from local community organizations estimates that the population has been stable since the previous examination. There are four colleges and universities within the Lubbock MSA. These include Texas Tech University, Lubbock Christian University, Wayland Baptist University - Lubbock Center, and South Plains College - Lubbock Center. The primary industry is agriculture, but Lubbock is a major regional center for business and industry as well.

The 1998 updated HUD median family income for Lubbock County is \$39,700. Lubbock County contains sixty-three census tracts (CTs) including eight low-income, eleven moderate-income, twenty-eight middle-income, and fourteen upper-income CTs. Two CTs do not have income designations. The 1990 census median family income was \$30,380. Approximately 26% of the households have been identified as low- or moderate income. Figure 1 shows the demographic composition of Lubbock County.



Major employers in the Lubbock area are Texas Tech University, Lubbock Independent School District, Plains Cooperative Oil Mill, Eagle Picher, Fleming Foods, Frito Lay, and Covenant Hospital System.

Overall, the Lubbock area economy remains stable due to strong distribution, wholesale, and retail trade sectors. Areas of economic weakness include: agriculture affected by poor commodity prices and production yields; and, the closing of Reese Air Force Base and Texas Instruments. Areas of economic strength during this evaluation period include strong real estate construction activity, including both commercial real estate and housing starts. While housing prices have increased, the average new homes constructed currently range between \$75,000 and \$85,000 in sales price.

Credit products offered in the assessment area are centered in agricultural, commercial, home mortgage, and consumer lending. There are twenty-six financial institutions in the Lubbock AA. Twelve are locally-owned commercial banks, including this bank. Three other financial institutions in the city of Lubbock are branches of out-of-area commercial banks. There are also two regional commercial banks. In addition, there are ten credit unions. The Lubbock AA also has many finance companies. Competition is considered strong.

One community contact was performed during this examination with a local organization geared toward various programs for affordable housing initiatives. Community contacts are performed to develop a community profile, identify community credit needs, and determine opportunities for participation by financial institutions in helping meet the local credit needs. Eight additional community contacts performed from 1996-1998 were reviewed and used during this examination. In general terms, the contacts feel that the following items could be improved upon through additional community and local government support:

- C More down payment assistance for affordable housing applicants.
- C Additional home ownership counseling services.
- C Assistance for redevelopment of decaying neighborhoods.
- C Economic development programs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank's primary focus is on commercial lending. Although home mortgage lending is a product that we reviewed, LNB generally offers this product only as a convenience to existing customers. The volume of lending in this area is minimal and carries less weight in assigning an overall performance rating in the Geographic Distribution of Loans and the Distribution of Loans to Borrowers of Different Income Levels. Although Consumer Loan Data was also sampled during this examination, an analysis of this loan product is not presented as performance was noted as satisfactory and received little weight in arriving at an overall performance rating. LNB's performance rating is driven by performance in the primary product line, Commercial (Business) Lending.

C Loan-to-Deposit Ratio

LNB's quarterly loan-to-deposit (LTD) ratio averages 53% during this evaluation period and was mostly stable. The total dollar amount of the loan portfolio has increased more than \$20 million during the evaluation period. We compared this ratio with seven other banks in the AA. These seven banks had an average LTD ratio during the same period of 58%, with the highest averaging 72% and the lowest averaging 35%. The asset size of the comparison banks ranged from a low of \$53 million and a high of \$1 billion. We found that two factors negatively impacted LNB's loan-to-deposit ratio during the period, when compared with the bulk of these other banks.

First, LNB does not offer agricultural loan products. The banks with higher LTD ratios do offer these products. As discussed previously in this document the bank has a valid reason for not offering these types of loans. We found this does not have a negative impact on the AA as agricultural loan needs were not identified as an area of additional needs because many banks in the AA make these types of loans.

Second, LNB maintains a deposit relationship averaging approximately \$20 million with one customer. This relationship began after the previous CRA examination. For various reasons, these funds are not considered lendable funds. Adjusting for this single account would produce an average LTD ratio of more than 60%.

Considering these factors, LNB's LTD ratio is reasonable.

C Lending in the Assessment Area

A majority of the loans sampled during this examination are in the bank's AA. Our sample included 242 home mortgage related loans, 28 consumer loans, and 30 small business loans originated since the previous examination.

Loans In The Assessment Area				
Loan Location	\$ Amount of Loans		# of Loans	
In Assessment Area	\$17,284	84.85%	257	85.67%
Outside Assessment Area	\$3,085	15.15%	43	14.33%
Total Reviewed	\$20,369	100.00%	300	100.00%

The level of loans originated within the AA is reasonable and meets the criteria for satisfactory performance.

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

LNB has displayed a reasonable responsiveness to the small business credit needs within the assessment area. LNB's lending performance reflects the business demographic make up of the assessment area. Seventy nine percent of the small business loans we sampled are to companies with annual revenues less than \$1 million, and 77% of the businesses within the assessment area have annual revenues less than \$1 million. The following information is based on our sample and includes only the small business loans within the assessment area.

Distribution of Small Business Loan Originations Sampled Within the Assessment Area By Business Revenues								
					Annual Revenues < \$1 Million			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
Small Business Loans	29	100%	\$2,308	100%	23	79%	\$1,180	51%
Distribution of Businesses in the Assessment Area by Annual Revenues of the Business:				< 1 Million	77%			
				> 1 Million	7%			
				Unknown	16%			
					*As a percentage of total loans sampled			

Source: Business Demographic Data and sample of loans reviewed during the examination.

Of the 23 loans originated to businesses with annual revenues less than \$1 million, our sample indicates a good responsiveness by LNB to the credit needs of businesses of varying sizes as detailed in the table below.

Lending to Businesses of Different Sizes Based on Sample Reviewed										
Annual Revenues of the Business	Less than \$100,000		\$100,000 - 250,000		\$250,000 - 500,000		\$500,000- 1,000,000		Total	
	#	%	#	%	#	%	#	%	#	%
Number of Loans	5	22%	7	30%	4	18%	7	30%	23	100
Avg. Loan Size (\$000's)	\$17		\$25		\$20		\$120		\$51	

An example of LNB's commitment to meet the credit needs of small businesses is a program called "The Family Business & Leadership Development Forum." This program is sponsored by LNB and is aimed at providing technical financial assistance primarily to the small business customer. The program includes the provision of informational and consulting services. Additionally, LNB participates in various loan programs of the Small Business Administration (SBA) and is a Preferred SBA Lender.

This review shows that LNB meets the criteria for satisfactory performance in lending across levels of various size businesses.

A review of all home mortgage related products originated for the full years of 1996-1998 reveals that the bulk of loans made were to upper-income borrowers. However, some loans were made to low- and moderate-income borrowers. The percentage distribution of all loans reviewed were not consistent with the percentage of the demographic distribution of low-, mod-, middle-, and upper-income families

in the assessment area. Several opportunities exist in the assessment area for participation in home loan programs geared toward the low- and moderate-income borrowers.

C Geographic Distribution of Loans

The geographic distribution of LNB's small business loans we sampled is satisfactory given the location of the bank's full service locations. Two locations are in upper-income census tracts that are predominantly surrounded by additional upper- and some middle-income census tracts. Recently, in 1998, LNB opened a branch in a low-income census tract. As noted in the table below, approximately two-thirds of the businesses in the assessment area are in middle- or upper-income tracts.

Distribution of Small Business Originations Sampled Within the Assessment Area By Income Level of the Census Tract								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	8	13%	11	18%	28	46%	14	23%
Number of Businesses	1,460	15%	1,741	18%	3,943	41%	2,448	26%
Loan Product	#	%	#	%	#	%	#	%
Small Business	2	7%	3	11%	8	30%	14	52%

Source: Business Demographic Data, 1990 Census Data, and loans sampled during this examination. Total loans excludes (2) loans within the Assessment Area sampled in which geographic location could not be determined.

The geographic distribution of home mortgage related loans represents significant penetration of the upper-income tracts, although loans have been originated during this review period in all levels of census tracts.

The overall geographic distribution of loans sampled during this examination exhibits satisfactory performance, given the locations of the bank's offices and the high level of competition noted in the Lubbock Assessment Area among banks.

OTHER FACTORS

C Record of Compliance with Antidiscrimination Laws

A Fair Lending examination was performed at this examination. Based on a comparative file review of approved direct auto purchase loans between male and female applicants, we did not identify any evidence of disparate treatment or discriminatory practices.

C Response to Complaints

LNB has not received any complaints during this evaluation period regarding their CRA performance.