



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 01, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lakeside National Bank
Charter Number 16357

2805 Ridge Road
Rockwall, TX 75087-0000

Office of the Comptroller of the Currency
Dallas Field Office
225 E. John Carpenter Freeway, Suite 500
Irving, TX. 75062-2326

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 performance of Lakeside National Bank of Rockwall, Texas (LNB) reflects a **satisfactory** response to the credit needs of its community. Factors that support the rating include:

- A majority of loans sampled originated within the assessment area (AA). Fifty-four percent of the loans sampled originated within the AA.
- Lending to businesses of different sizes exceeded the standard of reasonable performance. Seventy-five percent of the commercial loans sampled were made to businesses with revenues less than or equal to \$1 million dollars.
- Lending to borrowers of different income levels exceeded the standard of reasonable performance. Of the consumer loans sampled, 25% were made to low income borrowers and 45% were made to moderate income borrowers.

SCOPE OF EXAMINATION

LNB was evaluated using the Small Bank Community Reinvestment Act (CRA) examination procedures, which included a lending test. The lending test evaluated the financial institution's record of meeting the credit needs of its AA.

The scope of the CRA examination covered a period from April 4, 2006, the date of the prior Performance Evaluation (PE) to November 1, 2011, the date of the current evaluation. Commercial, Consumer and Residential Real Estate loans were identified as LNB's primary loan products. To evaluate lending performance, a sample of 20 commercial loans and 20 consumer installment loans originating from January 1, 2009 to September 30, 2011, were reviewed. HMDA data, which was tested for accuracy during the February 18, 2011 HMDA audit, was also used to evaluate lending performance. No significant discrepancies regarding the HMDA data were identified.

The loan-to-deposit ratio was evaluated using a comparison of other similarly situated financial institutions with headquarters located within the Dallas-Plano-Irving Metropolitan Statistical Area (MSA).

DESCRIPTION OF INSTITUTION

LNB is a \$52 million dollar community bank located in Rockwall, Texas serving the community of Rockwall County. It is a subsidiary of Lakeside Bancshares, Inc., a one-bank holding company. LNB has one location with an on-site ATM and a drive up teller window that provides extended weekday and Saturday hours.

Management's lending focus is centered in loans to small and midsize businesses and consumer loans. Primary loan products include commercial, consumer, and residential real estate loans. Local competition consists of state and national chartered financial

institutions. LNB does not have any financial or legal obstacles affecting its ability to meet community needs. As of September 30, 2011, net loans were 31% of total assets. The following table reflects LNB's loan portfolio summary:

| Lakeside National Bank Loan Portfolio Summary | | |
|--|---------------------------------|--------------------------|
| Loan Category | Dollar Volume (in thousands) | Percentage of Dollars |
| Commercial Loans, including real estate | 8,229 | 49% |
| Consumer Installment | 4,099 | 25% |
| 1-4 Family Residential Real Estate | 3,255 | 20% |
| Construction | 1,063 | <1% |
| Other – excludes consumer loans | 6 | <1% |
| Total | 16,652 | |

Source: September 30, 2011 Call Report

DESCRIPTION OF ASSESSMENT AREA(S)

Rockwall County is the smallest county in Texas, located approximately 25 miles northeast of Dallas, TX. According to the June 30, 2011 FDIC Market Share Report, there are a total of 13 financial institutions with 22 offices and total deposits of \$933,949,000 in Rockwall County. LNB is ranked 6th and holds 5% of the market share with American National Bank of Texas holding the largest percentage at 31%.

The local economy is stable with the largest employer being Rockwall Independent School District, followed by Lake Pointe Medical Center, Texas Star Express, Wal-Mart Superstore, and Rockwall County. The largest labor sectors are services, education, healthcare and government.

LNB identified Rockwall County as its AA. The AA includes 7 census tracts, 2 Middle Income census tracts and 5 Upper Income census tracts, with no Low or Moderate Income census tracts. The AA is within the Dallas-Plano-Irving MSA, meets regulatory guidelines, and does not arbitrarily exclude any low or moderate income areas.

The credit needs of the community were determined through an interview with the executive director of Rockwall Housing Authority and through conversations with LNB's management team. The community contact identified affordable housing as the primary credit need in Rockwall County and stated LNB was doing a good job of meeting the credit needs of the community. Management identified consumer installment loans and financing for small to mid-sized businesses as credit needs for Rockwall County.

Other pertinent demographic information is captured in the following table:

| Demographic Data for the Rockwall County AA | | | | | |
|--|----------|-------------------------|----------|-----------|-------|
| | Total | Low | Moderate | Middle | Upper |
| Census Tracts | 7 | 0 | 0 | 2 | 5 |
| Businesses by Geography | 10,104 | 0 | 0 | 3,677 | 6,337 |
| Farms by Geography | 279 | 0 | 0 | 92 | 187 |
| Owner Occupied Units | 12,010 | 0 | 0 | 3,183 | 8,827 |
| Households by Income | 14,581 | 1,870 | 1,881 | 2,551 | 8,279 |
| Families by Income | 12,091 | 1,430 | 1,777 | 2,469 | 6,415 |
| Families below Poverty Level | 612 | 612 | | | |
| | | | | | |
| Census MSA MFI | \$56,313 | Median Housing Value | | \$140,384 | |
| HUD – Adjusted MFI: 2011 | \$69,600 | Unemployment | | 1.27% | |
| HUD – Adjusted MFI: 2010 | \$68,900 | # of Retired Households | | 1,833 | |
| HUD – Adjusted MFI: 2009 | \$68,700 | # of SS Households | | 2,508 | |

Source: 2000 US Census

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LNB demonstrated satisfactory performance in meeting the credit needs of its AA. Our review focused on the primary lending products originated since the previous CRA examination: commercial, consumer and residential loans. HMDA data was used to assess the residential loans while a random sample of commercial and consumer loans was used to determine the extent of lending within the AA and the distribution of loans by borrower income levels.

Loan-to-Deposit Ratio

LNB's loan-to-deposit ratio (LTD) is reasonable given the credit needs of the AA, the institution's size, location, and financial conditional. The LTD was evaluated using a comparison of other similarly situated financial institutions with total assets between \$25 million dollars and \$75 million dollars with one branch location headquartered within the Dallas-Plano-Irving Metropolitan Statistical Area (MSA). LNB's average quarterly LTD was 37%, while average quarterly LTD of the custom peer group was 71%, with an average quarterly high of 109%; and average quarterly low of 34%.

| Institution | Assets – As of June 30, 2011 (in thousands) | Average LTD |
|------------------------------------|--|--------------------|
| Lakeside National Bank | 51,799 | 37% |
| Citizens State Bank | 38,856 | 34% |
| American Bank National Association | 43,814 | 42% |
| Texas Leadership* | 48,142 | 79% |

* Bank opened October 2006

Management contends, LNB has historically had a low LTD and the downturn in the economy since 2008 has not helped the situation. LNB is a conservative, low risk bank.

Few loans have been turned down or denied. Despite the low LTD, LNB continues to exceed the reasonable performance for lending to borrowers of different incomes and businesses of different sizes, thereby meeting the credit needs of its community.

Lending in Assessment Area

Lending in the AA is reasonable. Based on the sample of loans reviewed, LNB originated a majority of its primary loan products within its AA. As indicated in the following table 54% of the number and 57% of the dollar volume of loans sampled originated during the review were within LNB’s AA.

| Table 1 – Lending in Rockwall County | | | | | | | | | | |
|---|-----------------|------------|-----------|------------|-----------|------------------------|------------|----------------|------------|------------------|
| Loan Type | Number of Loans | | | | | Dollar Amount of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | # | % | # | % | |
| Residential RE | 13 | 52% | 12 | 48% | 25 | 771 | 45 | 929 | 55 | 1,700 |
| Consumer | 10 | 50% | 10 | 50% | 20 | 135,524 | 56% | 107,198 | 44% | 242,722 |
| Commercial | 13 | 65% | 7 | 35% | 20 | 609,267 | 57% | 455,645 | 43% | 1,064,912 |
| Total | 35 | 54% | 30 | 46% | 65 | 745,497 | 57% | 463,837 | 43% | 1,309,334 |

Source: Loan Sample and data reported under the Home Mortgage Disclosure Act (HMDA)

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

Overall LNB exceeded the standard of reasonable performance in lending to borrowers of different incomes and businesses of different sizes.

Borrowers of Different Incomes

As indicated in the following tables (Table 2 and Table 2B), the percentage of loans made to low and moderate income borrowers well exceeded the percentage of low and moderate income families and low and moderate income households in Rockwall County.

| Table 2 – Borrower Distribution of Residential Real Estate Loans in Rockwall County | | | | | | | | |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| Loan Type | Low | | Moderate | | Middle | | Upper | |
| | % 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 | 12% | 50% | 15% | 0% | 20% | 0% | 53% | 50% |
| Home Improvement | 12% | 0% | 15% | 75% | 20% | 25% | 53% | 0% |
| Refinance * | 12% | 0% | 15% | 0% | 20% | 33% | 53% | 33% |

Source: Data reported under the Home Mortgage Disclosure Act (HMDA)

*Total does not equal 100% given the reported applicant income is “unknown” because applicant is not a natural person (i.e. business entities).

| Table 2B – Borrower Distribution of Consumer Loans in Rockwall County | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|------------------|----------------------|
| Loan Type | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Families | % of Number of Loans |
| Consumer | 13% | 25% | 13% | 45% | 18% | 5% | 57% | 25% |

Source: Loan Sample and 2000 US Census

Businesses of Different Sizes

LNB exceeded the standard of reasonable performance in lending to businesses of different sizes. The percentage of loans made to businesses with revenues less than or equal to \$1 million dollars (small businesses) exceeded the percentage of small businesses in Rockwall County (Table 2A).

| Table 2A – Borrower Distribution of Loans to Business/Farms in Rockwall County | | | | |
|---|--------------|--------------|-------------------------|-------|
| Borrower Revenue | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 72% | 2% | 26% | 100% |
| % of LNB Loans in AA by # | 75% | 25% | 0% | 100% |
| % of LNB Loans in AA by \$ | 74% | 26% | 0% | 100% |

Source: Loan Sample and Dun & Bradstreet Business Geodemographic Data

Geographic Distribution of Loans

A meaningful analysis of the geographical distribution of loans could not be performed for Rockwall County due to the absence of low or moderate census tracts.

Responses to Complaints

LNB did not receive any complaints or public comments regarding CRA performance during this evaluation period.

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..