



SMALL BANK

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

July 16, 2012

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

First-Lockhart National Bank  
Charter Number 13934

111 South Main Street  
Lockhart, TX 78644

Office of the Comptroller of the Currency  
San Antonio - North Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 78216-4165

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 the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING:** This institution is rated **"Satisfactory."**

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

- FLNB's average loan-to-deposit (LTD) ratio of 75% is comparable to other similarly situated banks and is reasonable when considering the nature of its community, customer base, and known credit needs in the AA.
- A majority (52%) of FLNB's loans is within its AA. Seventy percent of commercial loans are within the AA.
- FLNB has demonstrated a willingness to extend loans to individuals of varying incomes and to businesses of different sizes. Lending to small businesses (less than \$1 million in revenue) exceeds the standards for satisfactory performance. Lending to moderate-income residential real estate borrowers is less than opportunities in those Census Tracts (CTs), but demonstrates adequate penetration, especially in the moderate-income level.
- The geographic distribution of residential real estate loans to moderate-income CTs within the AA is reasonable, given the demographics of the AA.
- There have been no complaints with respect to FLNB's Community Reinvestment Act (CRA) performance.

**SCOPE OF EXAMINATION**

We evaluated FLNB's CRA performance under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The current review focused on the bank's primary loan products, which includes all commercial-related loans from January 1, 2009, through December 31, 2011. In addition, our review focused on residential real estate for the Home Mortgage Disclosure Act of 1975 (HMDA) reportable years 2008, 2009, 2010, and 2011. ABS Consulting Services conducted a data integrity review of the HMDA data for 2008, 2009, 2010 and 2011. No material regulatory compliance deficiencies were found. We examined the work papers of the ABS data integrity review in this examination to confirm the reliability of the HMDA audit. We found no deficiencies.

**DESCRIPTION OF INSTITUTION**

FLNB is headquartered in the city of Lockhart, Caldwell County, Texas, which is approximately 40 miles southeast of Austin. Three automated teller machines (ATMs) are available in Lockhart and one in Kyle. The bank also has two drive-through facilities located near the main bank in Lockhart. The bank operates a Loan Production Office (LPO) in west Austin.

FLNB is 100% owned by Lockhart Bancshares Inc. Texas (LBI) a one-bank holding company located in Lockhart. LBI is a sub-chapter S status company. LBI is 100% independently owned by shareholders. Total assets of LBI were \$162 million as of April 30, 2012.

The bank's principal focus is to promote economic development in its AA through its lending programs. FLNB's primary lending products include residential, consumer, and commercial loans. Total loans as of April 30, 2012, amounted to \$109.4 million, which comprise 67.4% of total assets. The following table reflects a detailed breakdown of FLNB's loan portfolio as of April 30, 2012.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Nonfarm Nonresidential	43,536	40%
RE Residential (1-4)	32,536	30%
Commercial and Industrial	9,056	8%
Real Estate (RE) Construction	8,380	8%
Consumer	4,428	4%
RE Farmland	4,783	4%
RE Multifamily Residential	2,663	2%
States/Political Subdivisions	2,524	2%
Agricultural Production	1,422	1%
Other	53	1%
<b>Total</b>	<b>109,381</b>	<b>100%</b>

Bank lobby and drive-through services are provided Monday through Friday at the main bank, while only drive-through services are provided on Saturdays. FLNB faces competition from other banks in the AA (Citizens State Bank of Luling, Sage Capital Bank, Omnibank, First National and IBC). FLNB has an internet website that provides online banking services including bill pay; mobile banking with capability to check balances, transfer funds, view transactions and check messages; and a phone banking system which allows customers to transfer funds and make loan payments. The bank offers E-statements for electronic delivery of monthly bank statements.

Based on its financial condition, the local economy, product offerings, competition, and prior performance, FLNB has the ability to meet the various credit needs in its community. At our last CRA examination in September 2007, FLNB's CRA rating was "Satisfactory." No legal impediments or other factors hinder the bank's ability to provide credit in its AA.

**DESCRIPTION OF ASSESSMENT AREA**

FLNB has designated Caldwell County as its AA. Caldwell County is part of the Austin/Round Rock Metropolitan Statistical Area (MSA). Principal communities located in the AA area include Lockhart, Luling (part of the city), Martindale, Mustang Ridge (part) and Niederwald (part). Specific demographic and economic data is listed in the Table 1 below.

Table 1					
DEMOGRAPHIC INFORMATION FOR CALDWELL COUNTY ASSESSMENT AREA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (CTs)	7	0	85.71	14.29	0
Population by Geography	32,194	0	88.67	11.33	0
Owner-Occupied Housing Units by Geography	11,901	0	87.25	12.75	0
Businesses by Geography	3,102	0	85.78	14.22	0
Farms by Geography	176	0	93.18	6.82	0
Family Distribution by Income Level	8,080	33.12	25.63	22.23	19.02
Household Distribution by Income Level	10,777	0	33.90	23.59	0
Census Median Family Income (MFI)	\$49,438		Median Housing Value		\$37,113
HUD Adjusted MFI: 2011	\$74,900		Households Below Poverty Level		12.42%
HUD Adjusted MFI: 2010	\$73,800		Unemployment Rate		3.22%
HUD Adjusted MFI: 2009	\$73,300				

Source: 2000 US Census Data and 2008 HUD updated income data

FLNB's AA meets the requirements of the regulation and does not arbitrarily exclude low- to moderate-income (LMI) geographies. Based on 2000 Census data, the AA has a combined population of 32,194. There are 11,901 housing units in the AA, of which 63% are owner-occupied, 28% are renter-occupied and 9% are vacant. There are no low- or upper-income tracts included in the 2000 Census. Approximately 33% of the families in the AA are considered low-income. Moderate-income families approximate 26% of the population, while middle- and upper-income families comprise the remaining 41%. Major employers in the AA include the local school district, Pegasus Schools for treatment of abused and neglected boys, Wal-Mart, Serta Mattress, and the GEO group. The GEO group services a 500 bed men and 500 bed women's prison facility.

There is a major highway construction project leading into Lockhart from the Austin area. Construction of the State Highway 130 (toll road) should be completed in 2012. The completed road should increase volume of commuters to and from the Austin area. The highway may also increase 1-4 residential opportunities as well as small business loans for the financial services industry. In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted one community leader during this examination. The contact is the President of the Lockhart Chamber of Commerce. The contact stated that the local economy is positioned to grow rapidly pending completion of the State Highway 130. He stated that FLNB is active in the community and has opportunities to participate in community development.

**CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

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

**Loan-to-Deposit Ratio**

FLNB's LTD ratio is strong given its asset size, financial condition, and lending opportunities within its AA. Since the last CRA examination, the LTD ratio has decreased from 78% on September 30, 2007, to 75% on March 31, 2012. FLNB's average LTD ratio is comparable to other similarly situated banks and

is reasonable when considering the nature of its community, customer base, and known credit needs in the AA. The following table compares FNLB's average LTD ratio against peer institutions. The average LTD ratio for the peer group is 69.92% compared to FNLB's 75%. The institutions operate a branch in the Lockhart area. We also ran a custom peer group report of banks of similar asset size, Sub-S status, and located within the OCC San Antonio - North Field Office examination area. The custom peer group LTD ratio average for the quarter ending March 31, 2012 was 62% compared to FNLB's 75% average.

INSTITUTION	ASSETS AS OF MARCH 31, 2012	AVERAGE LTD RATIO %
Citizens State Bank of Luling	\$ 58,073	73.95
Omnibank, NA	333,555	93.31
First National Bank-Edinburg	3,545,375	88.11
City National Bank of Taylor	189,468	33.36
Sage Capital Bank, NA	295,609	60.86
<b>First Lockhart NB</b>	<b>\$162,232</b>	<b>74.88</b>

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

### Lending in Assessment Area

A majority of the bank's loans were made within its AA. In order to assess performance for this criterion, we reviewed a sample of 20 commercial and 134 residential loans originated during 2008 through December 2011. The total sample consisted of \$4.6 million in new loans over the specified time period. Our analysis determined that 52% of the number and 38% of the dollar amount of all loans sampled were made within the AA. As indicated in Table 2 below, the percentage of FNLB's loans made to borrowers in the AA is consistent among the products tested. Factors contributing to FNLB's lending to borrowers outside of their AA include:

- 1) The bank's LPO in west Austin that led to an increase in the bank's lending opportunities in Austin for home mortgages; and
- 2) Limited loan demand within the AA due to current economic conditions.

Based on our analysis, FNLB meets the standards for satisfactory performance regarding this criterion.

LOAN TYPE	In Assessment Area				Out of Assessment Area			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home Purchase	39	45.88	\$3,646	24.66	46	54.12	\$11,137	75.34
Home Improvement	1	25	\$42	11.29	3	75	\$330	88.71
Home Refinance	26	57.78	\$2,183	25.7	19	42.22	\$6,312	74.30
Commercial (limited sample)	14	70	\$1,731	37.26	6	30	\$2,853	62.24
<b>Total Reviewed</b>	<b>80</b>	<b>51.95</b>	<b>\$7,602</b>	<b>37.70</b>	<b>74</b>	<b>48.05</b>	<b>\$20,632</b>	<b>62.24</b>

Source: HMDA data and Commercial Loan Sample

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

**Overall, the bank has demonstrated reasonable loan penetration among borrowers of different income levels and businesses of different sizes.** Results of our analysis of residential real estate lending indicates that loan penetration to LMI individuals is not always reasonable or consistent with area demographics, but is explainable, however, given the bank’s performance context. Our analysis of commercial lending activity indicated that the bank demonstrates excellent performance under the borrower revenue criterion. For evaluation under this criterion, small businesses are defined as businesses with less than \$1 million in annual revenue.

We assessed FLNB’s performance under this criterion by utilizing HMDA information related residential mortgage loans originated or purchased between 2008 through 2011, samples of bank loans to businesses, 2000 Census data, and Dun and Bradstreet data. The tables below summarize lending penetration among the various levels of income or revenue for individuals or businesses respectively, for the bank’s AA.

**Residential Real Estate Loans**

As shown in Table 3 below, 59% of AA families are within LMI levels. According to Census demographic information, approximately 12% of AA families are considered to be below poverty level. Demographics show that 3% of families within this AA are low-income and 26% moderate-. This data reveals that FLNB’s lending to LMI families is less than opportunities in those CTs, but demonstrates adequate penetration, especially in the moderate-income level. The bank extended 13% and 23% of home purchase loans to low-income and moderate-income borrowers, respectively. As stated earlier, there were no low-income tracts in the 2000 Census.

The poor penetration among LMI individuals can be attributed to several factors including low loan demand and economic times. However, the performance context does bear consideration. Over the past few years, there have been few qualified borrowers and many LMI families are renting. There is a limited supply of homes within the AA that LMI families would qualify for. Many of the habitable homes priced under \$150 thousand are converted by investors into rental tracts or owner-financed homes for LMI buyers. Economic conditions have influenced homeowner loan qualification and have contributed to a lower volume of home purchase loans in the LMI CTs. Given the FLNB’s performance context, we evaluated performance under this criterion as demonstrating reasonable penetration in residential real estate lending among individuals of different incomes (including LMI).

Table 3								
BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN CALDWELL COUNTY ASSESSMENT AREA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	33.12	12.82	25.63	23.08	22.23	23.08	19.02	41.03
Home Improvement	33.12	0.00	25.63	0.00	22.23	100.00	19.02	0.00
Refinance	33.12	3.85	25.63	15.38	22.23	38.46	19.02	42.31

Source: Data reported under HMDA; US Census data

**Business Loans**

As illustrated in the table below, approximately 69% of AA businesses reported having annual gross revenues of \$1 million or less. Comparatively, the bank extended 85% based on number and 59% based on dollar amount of the commercial loans sampled in the Austin MSA to businesses with annual revenues of \$1 million or less. This demonstrates excellent penetration in lending to small businesses based on the percentage of bank loans in AA by number (85%). The analysis included a sample of loans originated between 2009 and 2011 to determine the level of distribution among businesses of different sizes.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN AUSTIN METROPOLITAN STATISTICAL AREA (CALDWELL COUNTY)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69.15%	1.64%	29.21%	100%
% of Bank Loans in AA by # (limited sample)	85.00%	15.00%	0.00%	100%
% of Bank Loans in AA by \$ (limited sample)	59.14%	40.86%	0.00%	100%

Source: Commercial Loan Sample; Dunn and Bradstreet data

**Geographic Distribution of Loans**

**Overall, the bank demonstrated satisfactory distribution of credit among its AAs.** FLNB’s AA consists of seven CTS, six of which are classified as moderate-income geographies. The remaining CT is considered a middle-income geography. Results of our analysis of residential real estate lending indicate that loan distributions among LMI geographies were not always reasonable or consistent with area demographics for the AAs, but understandable given the bank’s performance context. Our analysis of commercial lending activity indicated that the bank demonstrates excellent performance under this criterion. For evaluation under this criterion, small businesses are defined as businesses with less than \$1 million in annual revenue.

We assessed FLNB’s performance by utilizing HMDA information related to residential mortgage loans originated or purchased between 2008 and 2011, samples of bank loans to businesses, 2000 Census data, and Dunn and Bradstreet data. The following tables summarize lending dispersion among the various levels of income or revenue for individuals or businesses respectively, for the bank's AA.

**Home Loans**

FLNB’s geographic distribution of home loans in this AA reflects an overall satisfactory dispersion throughout CTS of different income levels. There were no low- or upper-income tracts. Within moderate-income tracts, 87% of units are considered owner-occupied housing. FLNB’s number of home purchase loans to individuals in moderate-income tracts is 59%, which is below the demographic comparative information. However, refinance loans to individuals in moderate-income tracts is 65%. Dispersion is considered reasonable overall in these CTS. The bank’s percentage of lending in middle-income tracts in home purchase and home improvement loans is more than the

demographic comparative information and is, therefore, considered excellent. Lending for refinance loans in middle-income CTs is considered excellent as well, supporting a reasonable level of dispersion.

Table 4 below gives further detail of the bank's performance as compared to the percentage of owner-occupied housing units in each CT income level.

**Residential Real Estate Loans**

Table 4								
GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN CALDWELL COUNTY ASSESSMENT AREA								
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	0.00	0.00	87.25	58.97	12.75	41.03	0.00	0.00
Home Improvement	0.00	0.00	87.25	0.00	12.75	100.00	0.00	0.00
Refinance	0.00	0.00	87.25	65.38	12.75	34.62	0.00	0.00

Source: Data reported under HMDA; US Census data

**Business Loans**

Geographic distribution of business loans in the Caldwell County AA reflects an overall satisfactory dispersion throughout the CTs of different income levels. There are no low-income or high-income CTs in this AA. In moderate-income CTs, the bank demonstrates satisfactory dispersion of lending to businesses based on our sample, as the 70% of bank lending in a moderate-income CT compare favorably to the 36% of businesses located in moderate-income CTs in the AA (Table 4a). In middle-income CTs, the bank demonstrates excellent dispersion of lending to businesses based on our sample, as the 30% of bank lending in a middle-income CT exceeds the 14% of AA businesses in middle-income CTs.

Table 4A								
GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES IN CALDWELL COUNTY ASSESSMENT AREA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses of Loans	% of Number of Loans	% of AA Businesses of Loans	% of Number of Loans	% of AA Businesses of Loans	% of Number of Loans	% of AA Businesses of Loans	% of Number of Loans
Businesses	0	0	86	70	14	30	0	0

Source: Loan sample; Dunn and Bradstreet data.

**Responses to Complaints**

No complaints relating to the bank's CRA performance has been received by First Lockhart National Bank or the Office of the Comptroller of the Currency's Customer Assistance Group.

**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.