



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 17, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Bastrop
Charter Number: 4093

489 Highway 71 West
Bastrop, TX 78602

Office of the Comptroller of the Currency

San Antonio – North
10001 Reunion Place, Suite 250
San Antonio, TX 78216-4133

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

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Outstanding.

The pattern of lending to borrowers of different incomes and geographic dispersion of loans throughout the assessment area shows satisfactory performance.

- The First National Bank of Bastrop’s (FNBB) loan-to-deposit (LTD) ratio meets the standard for satisfactory performance. The LTD averaged 66% since our last examination. Over the same time period, the average LTD for similarly situated banks was 60%.
- A substantial majority of FNBB’s loans are within its assessment area (AA).
- The distribution to borrowers reflects a reasonable penetration to individuals of different incomes and a good penetration to businesses of different sizes.
- The geographic dispersion of loans exceeds AA demographic statistics with regards to home loans. The geographic dispersion for loans to small businesses is reasonable.
- The bank is active in the community by providing loans and services to low- or moderate-income (LMI) individuals and small business owners.
- There have been no complaints with respect to FNBB’s CRA performance.

Scope of Examination

The bank’s primary focus is to promote economic development in its AA through its lending programs. FNBB’s market niche is residential and commercial real estate. Loans make up 60% of the bank’s total assets. As of March 31, 2010, the loan portfolio consisted of the following categories noted on the table below:

LOAN CATEGORY	\$(000)	%
Residential Real Estate (1 – 4 Family)	64,420	34%
RE Non-Farm Nonresidential	51,393	27%
RE Farmland	20,730	11%
Construction	20,255	10%
Commercial and Industrial	12,731	6%
Consumer	11,940	6%
Obligations of Municipalities	5,226	3%
Agricultural Production	3,813	2%
RE Multifamily/Other	1,572	1%
Total	192,080	100%

We reviewed loans originated since August 25, 2007. Because FNBB is a Home Mortgage Disclosure Act (HMDA) reporter, we reviewed 20 HMDA reportable loans and compared the information in the file with information recorded in the bank's HMDA loan application register (LAR). We found the bank's reported information to be reliable with respect to key fields reported on the LAR and determined we could use data from all HMDA transactions during the assessment period.

We also reviewed 26 commercial real estate loans originated within the bank's assessment area for information needed for nonfarm nonresidential real estate (RE) loans with regards to this examination.

Description of Institution

FNBB has total assets of \$319 million with loans totaling \$192 million.

FNBB operates out of six facilities located at the following addresses:

- 1) 501 Highway 71 West, Bastrop, Texas;
- 2) 1312 Highway 290, Elgin, Texas;
- 3) 312 Main Street, Smithville, Texas;
- 4) 1021 Main Street, Bastrop, Texas;
- 5) 489 Highway 71 West, Bastrop, Texas; and
- 6) 118 Highway 21 West, Cedar Creek, Texas.

The facility located at 489 Highway 71 West in Bastrop serves as the bank's main facility. There is an automated teller machine (ATM) located at each facility. Additionally, the bank has two ATMs in businesses located in Smithville and Bastrop. Customers are provided 24-hour banking service through Internet banking.

Description of Assessment Area(s)

FNBB has designated Bastrop County as its AA. Bastrop County consists of 8 census tracts (CT). These census tracts include two moderate- and six middle-income areas. Prior to 2003, Bastrop County consisted of three moderate- and five middle-income CTs. There are no low-income CTs within the AA. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. Principal communities located in the AA include the cities of Bastrop, Elgin, Cedar Creek, and Smithville. Bastrop County is one of five counties that make up the Austin-Round Rock Metropolitan Statistical Area (MSA). Specific demographic data for the AA is provided below.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	14,829
Number of Households	20,067
<i>Geographies</i>	
Number of Census Tracts	8
% Low-income Census Tracts	0%
% Moderate-income Census Tracts	25%
% Middle-income Census Tracts	75%
% Upper-income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$59,498
2009 HUD-Adjusted MFI	\$73,300
2008 HUD-Adjusted MFI	\$69,100
2007 HUD-Adjusted MFI	\$69,300
<i>Economic Indicators</i>	
Unemployment Rate	2%
2000 Median Housing Value	\$87,440
% of Households Below Poverty Level	11%

Based on its financial condition, resources, the local economy, product offerings, and competition, FNBB has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder the bank's ability to provide credit in its AA. FNBB received an "Outstanding" rating at the previous CRA examination conducted in September 2007.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted Joe D Newman, President of the Bastrop Economic Development Corporation, and Brandy Spencer, Executive Director of the Bastrop Housing Authority. The community contacts stated that Bastrop has seen a growth in population, commerce and employment. Many large retailers have opened locations in Bastrop since the last CRA examination and have created a great number of jobs for residents. New subdivisions are developing all over the area providing a large inventory of housing. However, the community contacts felt that LMI families may have difficulty

affording these houses. Ms Spencer again stated there was a need for affordable housing. Both contacts spoke favorably of FNBB and expressed there are no unmet credit needs.

Conclusions with Respect to Performance Tests

LENDING TEST

FNBB’s performance in meeting the credit needs of the AA, including LMI individuals and areas consistent with its resources and capabilities, is satisfactory.

Loan-to-Deposit Ratio

FNBB’s LTD ratio meets the standard for satisfactory performance given its asset size, financial condition, and lending opportunities within its AA. The average LTD ratio over the 12 quarters since the last examination is 66%. This ratio has remained stable from the prior CRA examination’s average ratio of 66%. The LTD is reasonable when compared to other similarly situated banks located in the AA. LTD ratios for these banks averaged 60%. The ratio is trending upwards and was around 69% at the time of examination.

INSTITUTION	ASSETS AS OF 12/30/2009	AVERAGE LTD RATIO %
The City National Bank of Taylor	224,096	40%
First State Bank of New Braunfels	246,105	92%
First Texas Bank of Georgetown	309,873	49%
Union State Bank of Florence	373,034	56%
First National Bank of Bastrop	310,060	66%

Lending in Assessment Area

A substantial majority of the number and dollar volume of loans originated from September 2007 through April 2010 are in the bank’s AA. Of all loans originated during the period, 85% of the number and 80% of the dollar amount of loans are within FNBB’s AA. These figures are supported through the analysis of aggregate HMDA data during the assessment period as well as a random sample of 26 commercial real estate loans originated during the same period. Please see the table on the following page for details.

Lending in Bastrop County AA								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$ (000s)	%	\$ (000s)	%
Home Purchase	225	78.40	62	21.60	\$27,195	74.09	\$9,509	25.91
Home Improvement	214	89.54	25	10.46	\$7,591	89.31	\$909	10.69
Refinance	154	91.67	14	8.33	\$15,643	88.92	\$1,950	11.08
Commercial RE	20	76.92	6	23.07	\$4,279	77.14	\$1,268	22.86
Totals	613	85.14	107	14.86	\$54,708	80.05	\$13,636	19.95

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

FNBB’s loan portfolio reflects a reasonable distribution among individuals of various income levels and businesses of different sizes within the AA. Based on our review of aggregate HMDA data, the bank’s level of residential real estate lending to moderate-income families meets the standard for reasonable performance. The level of lending to low-income families is below area demographics. The reason for the lower level of lending to low-income families is the relatively low supply of affordable housing coupled with the bank’s requirement of a 15% down payment for home loans. Several competitors in the area offer 100% financing. However, FNBB works with the Bastrop Housing Authority to help provide low-income housing to area LMI residents. Please see the section on Community Development for more information.

BORROWER DISTRIBUTION: RESIDENTIAL REAL ESTATE								
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	24.74	12.00	22.56	19.11	26.14	21.33	26.56	46.22
Home Improvement	24.74	22.43	22.56	21.03	26.14	27.57	26.56	24.77
Refinance	24.74	9.74	22.56	24.68	26.14	24.68	26.56	40.26

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

We reviewed 26 commercial real estate loans to determine the lending distribution among businesses of different sizes. FNBB’s lending to small businesses exceeds area demographics. Management continues to focus on providing loans that will enhance and support the local economy.

BORROWER DISTRIBUTION: BUSINESSES				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	78.39%	1.69%	19.92%	100%
% of Bank Loans in AA by #	85%	15%	-	100%
% of Bank Loans in AA by \$	88.5%	11.5%	-	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion of loans throughout the AA when compared to area demographic characteristics. We based our analysis on FNBB’s residential and commercial real estate loans which comprise 61% of total loans as of March 31, 2010. The geographic distribution of residential loans located in moderate-income census tracts exceeds AA demographics. The geographic distribution of commercial real estate loans located in moderate-income census tracts reasonably compares to the AA demographics. The bank has a branch in Smithville and Cedar Creek where the AA’s two moderate-income CTs are located.

GEOGRAPHIC DISTRIBUTION: RESIDENTIAL REAL ESTATE								
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	15.82	28.44	84.18	71.56	0.00	0.00
Home Improvement	0.00	0.00	15.82	31.78	84.18	68.22	0.00	0.00
Refinance	0.00	0.00	15.82	24.68	84.18	75.32	0.00	0.00

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

GEOGRAPHIC DISTRIBUTION: COMMERCIAL REAL ESTATE								
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
Businesses	0.00	0	15.67	11%	84.33	89%	0.00	0

Source: Loan sample; Dunn and Bradstreet data.

Responses to Complaints

FNBB has received no complaints relating to the bank's performance under the CRA.

COMMUNITY DEVELOPMENT TEST

FNBB's performance under the community development (CD) test is rated "Outstanding." The bank demonstrates excellent responsiveness to the needs of their AA, Bastrop County. The bank has originated over 3 million in loans, and made qualified investments in the form of donations for over 27 thousand to businesses and organizations that benefit LMI families and individuals. CD loans and qualified investments total 8.63% of Tier One capital. CD services performed by the bank exceed the standards for satisfactory CRA performance. Participation in down payment assistance programs, and financial literacy education initiatives benefit LMI persons within the AA.

Number and Amount of Community Development Loans

Qualified CD loans are those that meet the definition of CD as defined in the CRA regulation and do not include loans given consideration under the Lending Test.

Performance in the Bastrop County AA

FNBB originated \$3,035,400 in CD loans since the last CRA examination. Loans were made to non-profit organizations and small business with the purpose of rebuilding the downtown area and creating LMI jobs within the AA.

- \$50,000 to Baxter's through the Texas Main Street Program to help promote economic development and revitalize the historic downtown area while creating LMI jobs.
- \$130,000 to Bastrop Copier through the Texas Main Street Program to help promote economic development and revitalize the historic downtown area while creating LMI jobs.
- \$75,000 to Firestone through the Texas Main Street Program to help promote economic development and revitalize the historic downtown area while creating LMI jobs.
- \$217,320 to Rustic Cedar Cabins working with the Small Business Association (SBA) to expand their business and create LMI jobs.
- \$603,756 to The Bastrop County Emergency Services, a non-profit organization, to purchase two new fire trucks and for other CD purposes. Loan amount is the sum of two loans funded by the bank.
- \$50,000 to Christopher Cecil through the Texas Main Street Program to help promote economic development and revitalize the historic downtown area while creating LMI jobs.

- \$118,311.53 to The Bastrop County Emergency Food Pantry, a non-profit organization who directly assist LMI persons. Loan amount is the sum of two loans funded by the bank.
- \$323,301.14 to Best Friends Boarding Too working with the Small Business Association which created six LMI jobs.
- \$1,654,732 to Gate 21, Inc. Bank helped Gate 21, Inc obtain \$25,000 grant from the FHLB based on the borrower's ability to create LMI jobs, and subsequently funded the loan.
- \$30,300 to Parobek Plumbing with the SBA America's Recovery Capital Program to create LMI jobs and retain current employees.

Number and Amount of Qualified Investments

Investments, deposits, membership shares, or grants that have CD as their primary purpose, are defined as "qualifying investments" in the CRA regulation. Investments support community services that target LMI families and individuals.

Performance in the Bastrop County AA

FNBB has contributed to the community through numerous donations totaling \$27,167. The bank makes ongoing contributions to organizations such as the Bastrop County Emergency Food Pantry, Boys and Girls Club, Court Appointed Special Advocates (CASA) for Children, The Family Crisis Center, The Lincoln Center, and Kerr Community Center. The bank also supports Blue Santa and Pink Santa. These organizations work to serve LMI families and individuals.

Extent to Which the Bank Provides Community Development Services

Qualified CD services must meet the definition of "community development" in the CRA regulation and must be related to providing financial services to qualified individuals or organizations.

Performance in the Bastrop County AA

FNBB works with the FHLB Homebuyer Equity Leverage Partnership (HELP) to assist LMI income first time home buyers. The program matches funds for down payment and closing costs. The bank also works with the Bastrop Housing Authority to provide down payment assistance grants for LMI individuals. Home buyer and home maintenance counseling programs are offered online by the bank for customer use. The bank offers LMI individuals low cost checking accounts and free government check cashing.

The bank participates in the Save for America Program which is offered to all local elementary schools with the intent to encourage children to save. Information is provided at events such as career day, student bank tours, and presentations given to various grade

levels. Educational Bank Books are also handed out at these student events. FNBB offers financial literacy information at various community events such as the Welcome Back to School Teacher Breakfast and the Bastrop County Real Estate Expo. Additionally, President and CEO Reid Sharp serves as Chair of the Economic Restructuring Committee in Bastrop County.

Responsiveness to Community Development Needs

Performance in the Bastrop County AA

The bank demonstrates a strong responsiveness to the community development needs of Bastrop County. While investment opportunities are limited, the bank is currently working to rebuild the historic downtown Bastrop area by bringing in new businesses and creating LMI jobs. The bank is responsive to the needs of non-profit organizations in the community who directly assist LMI individuals and families. In addition, the bank has been active in sponsoring financial literacy programs.

Fair Lending or Other Illegal Credit Practices Review

FNBB has not been subjected to a Fair Lending review. However, based on our review of complaint records and consumer files during this evaluation period, we found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.