



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 3, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

National Bank
Charter Number: 4097

905 Main Street
Gatesville, TX 76528-0779

Office of the Comptroller of the Currency
Southern District
SAN ANTONIO – NORTH FIELD OFFICE
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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."

The Lending Test is rated "Satisfactory."

The Community Development Test is rated "Satisfactory."

- National Bank (NB) has demonstrated lending performance that is satisfactory given its size, financial condition, and the known credit needs in its assessment areas (AA).
- NB's loan-to-deposit (LTD) ratio is reasonable and has averaged 65% during this evaluation period.
- A substantial majority of NB's loans are within its AA. Approximately 94% of the number of loans was to borrowers within the AA.
- NB's distribution of lending to low- and moderate-income (LMI) borrowers is below area demographics.
- NB meets the standards for lending to small businesses.
- The overall geographic distribution of the bank's loans within the AA is below area demographics. We did note that business lending in the low income Killeen MSA tracts is in line with area demographics.
- NB's community development performance demonstrates satisfactory responsiveness to the community development needs of its primary AA.

SCOPE OF EXAMINATION

NB was evaluated under intermediate small bank examination procedures, which includes lending and community development tests. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The bank's two largest loan products as of June 30, 2011, were commercial real estate (CRE) and residential real estate. The two products represent 71% of the bank's total lending.

The CRE and residential real estate lending test for NB covers its performance from January 1, 2009 through June 30, 2011, and is representative of its lending strategy since the last CRA exam dated October 8, 2008. The bank's AA includes two metropolitan statistical areas (MSAs); therefore, the bank is a HMDA reporter. The HMDA data was determined to be reliable through the bank's auditing process. A sample was pulled for commercial loans, and HMDA data was used to assess the bank's lending performance relative to the residential real estate portfolio.

DESCRIPTION OF INSTITUTION

NB is an intrastate bank headquartered in Gatesville, Texas. As of June 30, 2011, assets totaled \$471 million. The bank is 100% owned by National United Bancshares, Inc., a single-bank holding company. NB has eight locations including branches in Killeen, Copperas Cove, Gatesville, Hewitt, Kempner, Lampasas, and Waco. Each location offers standard banking services Monday through Friday. Limited hours on Saturday are offered at the majority of the branches. Automated teller machines (ATMs) are available at all branch locations. Drive-through banking services are also offered at all branches.

There are no legal, financial, or other factors hindering the bank's ability to help meet the credit needs in

its AA. The previous CRA examination is dated October 8, 2008, in which NB was rated “Satisfactory” under intermediate small bank criteria.

As of June 30, 2011, loans totaled \$248 million, which is approximately 53% of NB’s total assets. A summary of the loan portfolio is as follows:

Table 1		
Loan Portfolio Summary by Loan Product		
June 30, 2011		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial (Including Real Estate)	\$122,174	49.00%
Residential	\$55,172	22.00%
Consumer	\$42,233	17.00%
Agricultural/Farm	\$27,038	11.00%
Other Loans	\$881	1.00%
Total	\$247,498	100.0%

NB offers standard deposit and loan products. Personal account options include Premier Banclub, Senior Banclub, Gold Plus, and Platinum Plus. The Platinum Plus requires a minimum balance of \$25 thousand, and is an interest earning checking account. The bank also offers NOW, savings, and money market accounts, and an Individual Retirement Account (IRA). NB offers standard checking accounts for commercial customers. Other products and services include debit cards, Internet banking, merchant capture, lock box services, and account sweeps. Loan products include various types of commercial, consumer, and mortgage lending as the bank owns and operates a mortgage center in Killeen.

Description of Assessment Area(s)

The CRA requires a financial institution to define the AA in which it will be evaluated. NB has two AAs. The first AA consists of McLennan County, which includes the Waco MSA. The second AA includes Coryell County, Lampasas County, and a portion of Bell County. These three counties contain the Killeen-Temple-Fort Hood MSA. However, the bank does not operate a branch in Temple. Combined, the two AAs cover 98 census tracts ranging from low- to upper-income. The majority of the bank’s deposits and lending are done in the Killeen-Temple-Fort Hood MSA. Therefore, more weight was given within this AA for the examination.

Killeen-Temple-Fort Hood MSA

This AA includes Lampasas, Coryell, and parts of Bell County, which contains the Killeen-Temple-Fort Hood MSA. This MSA is the more densely populated area with a population of 275 thousand. Killeen is approximately 59 miles southwest of Waco. Gatesville, where the primary operations of the bank are located, is 39 miles north of Killeen. See the table on the following page for more demographic information.

Table 2A					
Demographic Information for Killeen-Temple-Fort Hood MSA AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	47	2.13%	21.28%	59.57%	17.02%
Population by Geography	275,436	0.85%	17.40%	61.87%	19.89%
Owner Occupied Housing Units by Geography	98,300	0.21%	8.45%	62.03%	29.32%
Businesses by Geography	16,008	3.23%	13.78%	56.14%	26.85%
Farms by Geography	749	0.53%	7.34%	50.07%	42.06%
Family Distribution by Income Level	68,324	16.86%	20.72%	23.94%	38.49%
Household Distribution by Income Level	90,058	18.24%	18.47%	22.51%	40.77%
Census Median Family Income (MFI)		\$40,972	Median Housing Value		\$72,887
HUD – Adjusted MFI: 2011		\$54,900	Households Below the Poverty Level		10.97%
HUD – Adjusted MFI: 2010		\$54,900	Unemployment Rate		3.49%
HUD – Adjusted MFI: 2009		\$54,000			

NB operates in a competitive banking environment within this AA. According to 2010 demographic data, the area consists of about 90 thousand households of which about 37% are considered LMI. The median housing value is \$73 thousand. Of the 47 census tracts, 2.13% are low-income, 21.28% are moderate, 59.57% are middle, and 17.02% are upper-income. Approximately 18% of the population lives in LMI geographies. The area’s unemployment is below national averages at 3.5%. Additionally, the percentage of households below the poverty level is 11%.

The main employers in the area include the Fort Hood Army Post, civilian personnel in support of military operations, Scott & White Clinics and Healthcare, and the various cities and school districts through the area. Of the 16 thousand businesses, 91% are single-location businesses with their sole operations located within the MSA. The majority of businesses (80%) have revenues under \$1 million.

Waco MSA

The bank’s second AA is McLennan County, which consists of the Waco MSA and boasts a population of 214 thousand. The bank operates only two locations out of the area, and thus, more weight was placed on performance in the Killeen-Temple-Fort Hood MSA. See the table below for demographic data.

Table 2B					
Demographic Information for Waco MSA AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	51	9.8%	27.45%	31.37%	31.38%
Population by Geography	213,517	10.94%	25.71%	31.10%	32.24%
Owner Occupied Housing Units by Geography	47,463	23.34%	40.77%	63.76%	72.73%
Businesses by Geography	14,521	4.05%	27.62%	28.84%	39.49%
Farms by Geography	738	1.08%	8.54%	44.72%	45.66%
Family Distribution by Income Level	53,122	20.68%	17.54%	21.36%	40.42%
Household Distribution by Income Level	78,926	25.33%	15.07%	17.82%	41.78%
Census Median Family Income (MFI)		\$41,455	Median Housing Value		\$62,261
HUD – Adjusted MFI: 2011		\$51,900	Households Below the Poverty Level		17.63%
HUD – Adjusted MFI: 2010		\$51,900	Unemployment Rate		4.76%
HUD – Adjusted MFI: 2009		\$51,700			

Waco currently represents a very competitive environment for NB. McLennan County consists of about 79 thousand households of which 40% are considered LMI. The median housing value is \$62 thousand. Of the 51 census tracts, 9.8% are low-income, 27.45% are moderate, 31.37% are middle, and 31.38% are upper-income. Therefore, about 36% of households are located in LMI census tracts. The area exceeds the national poverty statistics with almost 18% of households living below the poverty level. However, the unemployment rate is lower than national and state averages at 4.76%.

Main employers in the area include Providence Health Centers, Baylor University, Waco ISD, City of Waco, and Hillcrest Health Systems. Higher education and health care continue to be the main industries for the area. Several colleges in Waco include the afore-mentioned Baylor, Texas State Technical College, and McLennan Community College. Other large employers are HEB, Wal-Mart, and Sanderson Farms, Inc. Of the 15 thousand businesses, 89% are single-location business with sole operations located in McLennan County. The majority of businesses (77%) have revenues under \$1 million.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The bank’s performance under the Lending Test is rated “Satisfactory.”

Loan-to-Deposit Ratio

NB’s LTD ratio meets the standard for satisfactory performance given its asset size, financial condition, and lending opportunities available within its AAs. Since the last CRA examination, the LTD ratio has fluctuated within the range of 58% to 73%. During this period, the ratio averaged 65%. This is reasonable compared to other banks with similar lending opportunities that are located within NB’s AAs. NB ranks four out of six institutions in terms of highest LTD ratio, as noted in Table 3 below. The table illustrates that the larger institutions generally have higher LTD ratios, and NB’s ratio appears reasonable relative to its size.

Table 3		
LOAN-TO-DEPOSIT RATIO COMPARISON		
INSTITUTION	ASSETS (000s) As of 6/30/2011	AVERAGE QUARTERLY LTD RATIO As of 6/30/2011
Central National Bank, Waco	\$592,471	84.16%
First Texas Bank, Lampasas	\$113,568	38.07%
First National Bank Texas, Killeen	\$1,023,824	35.05%
Extraco, Temple	\$1,184,898	82.99%
First National Bank Central Texas, Waco	\$570,194	92.67%
National Bank, Gatesville	\$470,948	64.99%

Lending in Assessment Area

NB originates a substantial majority of loans within its AAs, with a total of 94% of the total sample of 1,014 loans originated within the bank’s AAs. The bank made approximately 94% of the dollar volume of loans to borrowers located within the AAs. This represents an outstanding performance in regards to CRA standards. The following Table 4 shows NB’s record of lending in both AAs.

Table 4				
LENDING IN ASSESSMENT AREA				
Loan Type	In AA		Out of AA	
	#	%	#	%
Residential	915	94%	59	6%
Commercial	37	93%	3	8%
Total In/Out Sample	952	93.8%	62	6.1%

Source: HMDA Data; Bank Data

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

Based on our sample, NB’s level of lending to borrowers of different incomes and businesses of different sizes is satisfactory. Residential real estate lending to LMI borrowers in the AA is well below area demographics. However, the bank exceeds the performance standards in commercial lending. For evaluation under this criterion, small businesses are defined as businesses with \$1 million or less in annual revenue.

Killeen-Temple-Fort Hood MSA

We gave more weight to NB’s performance in this MSA due to the fact that they have a more established presence here. The substantial majority (88%) of the bank’s deposits were collected in the five branches in the Killeen-Temple-Fort Hood MSA.

Table 5a								
BORROWER DISTRIBUTION OF 1-4 FAMILY REAL ESTATE – KILLEEN MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # Loans	% of AA Families	% of # Loans	% of AA Families	% of # Loans	% of AA Families	% of # Loans
Home Purchase	16.86	4.74	20.72	17.70	23.94	27.01	38.49	47.81
Home Improvement	16.86	5.56	20.72	22.22	23.94	11.11	38.49	61.11
Refinancing	16.86	3.35	20.72	10.05	23.94	18.18	38.49	58.85

Source: U.S. Census Data; HMDA Data

NB’s penetration of home mortgage loans to families of varying income levels is below area demographics. As shown in Table 5a above, about 17% of the AA families are low-income and 21% are moderate-income. According to HMDA data, the bank originated 4% of its residential real estate loans to low-income borrowers and 18% to moderate-income borrowers.

Table 5b			
BORROWER DISTRIBUTION OF LOANS TO BUSINESSES – KILLEEN MSA			
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown
% of AA Businesses	80.3%	2.19%	17.52%
% of Bank Loans in AA #	84.0%	16.0%	NA
% of Bank Loans in AA \$	70.9%	29.1%	NA

Source: U.S. Census Data; Bank Records

As illustrated in Table 5b above, 80.3% of businesses within the AA have revenues of \$1 million dollars or less. Comparatively, 84% of the number and 71% of the dollar amount of commercial loans sampled in the Killeen MSA were made to businesses with annual revenues of \$1 million dollars or less. The bank’s performance meets standards for CRA performance and illustrates satisfactory performance in lending to small businesses.

Waco MSA

This MSA was given less consideration due to NB’s lower level of activity in the Waco market.

Table 6a								
BORROWER DISTRIBUTION OF 1-4 FAMILY REAL ESTATE – WACO MSA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # Loans	% of AA Families	% of # Loans	% of AA Families	% of # Loans	% of AA Families	% of # Loans
Home Purchase	20.68	5.15	17.54	19.59	21.36	25.77	40.42	46.38
Home Improvement	20.68	0.00	17.54	40.00	21.36	20.00	40.42	40.00
Refinancing	20.68	0.00	17.54	5.26	21.36	23.68	40.42	68.42

Source: U.S. Census Data; HMDA Data

Penetration to low-income borrowers is significantly below area demographics. Penetration to moderate-income borrowers is more in line with area demographics. As shown in Table 6a above, about 20.68% of the AA families are low-income and 17.54% are moderate-income. Comparatively, the bank originated less than 5.15% of its residential real estate loans to low-income borrowers. However 19.59% of loans that were made were to moderate income families.

Table 6b			
BORROWER DISTRIBUTION OF LOANS TO BUSINESSES – WACO MSA			
Business Revenues	≤\$1,000,000	>\$1,000,000	N/A
% of AA Businesses	77.16%	4.21%	18.62%
% of Bank Loans in AA #	86.67%	13.33%	N/A
% of Bank Loans in AA \$	77.47%	22.53%	N/A

Source: U.S. Census Data; Bank Records

As illustrated in Table 6b above, 77.16% of AA businesses reported having annual revenues of \$1 million dollars or less. Comparatively, 86.67% of the number and 77.47% of the dollar amount of commercial loans sampled in the Waco MSA were made to businesses with annual revenues of \$1 million dollars or less. The commercial sample demonstrates good penetration.

Geographic Distribution of Loans

The geographic distribution of the loan sample is satisfactory overall. We put more weight on the commercial lending performance since the substantial majority of loans made were commercial-related loans. We did not identify any conspicuous gaps in lending throughout the bank’s AAs.

Killeen-Temple-Fort Hood MSA

Home Loans

The bank’s geographic distribution of home loans in this AA reflects dispersion below area demographics. In this AA, 0.21% of owner occupied loans are within low-income tracts. NB’s number of loans to individuals in low-income tracts is 0.55%, which is above the demographic comparative information. However, 8.45% of owner-occupied housing is located in moderate-income tracts, and only 4.56% of home purchases were made within the tracts. Additionally, home improvement and refinancing loans were also below demographic data according to HDMA data.

The following Table 7a gives further detail of the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Table 7a								
GEOGRAPHIC DISTRIBUTION OF 1-4 FAMILY REAL ESTATE— KILLEEN MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Owner Occupied Housing	% of # Loans	% of Owner Occupied Housing	% of # Loans	% of Owner Occupied Housing	% of # Loans	% of Owner Occupied Housing	% of # Loans
Home Purchase	0.21	0.55	8.45	4.56	62.03	74.82	29.32	20.07
Home Improvement	0.21	0.00	8.45	0.00	62.03	88.89	29.32	11.11
Refinancing	0.21	0.00	8.45	5.74	62.03	81.82	29.32	12.44

Business Loans

The bank’s geographic distribution of business loans reflects area demographics for low- but not moderate-income areas. In reviewing Table 7b below, the bank is in line with lending in low-income census tracts. However, the bank underperformed in moderate-income census tracts. Here, the bank extended 0% of the loan sample, compared to 13.78% of businesses physically located in a moderate-income census tract.

Table 7b								
GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES – KILLEEN MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
All Commercial Loans	3.23%	4%	13.78%	0%	56.14%	80.0%	26.85%	16%

Waco MSA

Home Loans

The bank’s geographic distribution of home loans in this AA is below area demographics. The percentage of owner-occupied housing in low-income census tracts is 4.8%, compared to the bank’s overall lending percentage of 1.03%. Within moderate-income census tracts, the bank shows a 11% penetration versus 19% for the AA.

The following Table 8a details NB’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Table 8a								
GEOGRAPHIC DISTRIBUTION OF 1-4 FAMILY REAL ESTATE– WACO MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of Owner Occupied Housing	% of # Loans	% of Owner Occupied Housing	% of # Loans	% of Owner Occupied Housing	% of # Loans	% of Owner Occupied Housing	% of # Loans
Home Purchase	4.80	1.03	18.68	11.34	36.55	19.59	39.97	68.04
Home Improvement	4.80	0.00	18.68	0.00	36.55	20.00	39.97	80.00
Refinancing	4.80	0.00	18.68	0.00	36.55	18.42	39.97	81.58

Business Loans

NB’s geographic distribution of business loans in the Waco MSA reflects near area demographics for moderate-income census tracts but no penetration for low-income areas. Based on our sample, 20% of bank lending was in moderate-income census tracts, which is below the 28.6% of total AA businesses in moderate-income census tracts.

The following Table 8b details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Table 8b								
GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES – WACO MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
All Commercial Loans	4.05%	0.00%	27.6%	20%	28.84%	6.67%	39.49%	73.33%

Responses to Complaints

The bank has not received any CRA complaints during this evaluation period.

COMMUNITY DEVELOPMENT TEST

The bank's performance under the Community Development Test is rated "Satisfactory" overall. Based on a full-scope review, the bank's performance in the Killeen-Temple-Fort Hood AA is satisfactory in light of the bank's capacity, business strategy, the needs of the community, and the number and types of opportunities for each type of community development activity. We gave much more weight to the bank's community development performance in the Killeen-Temple-Fort Hood MSA, as 88% of the bank's deposits are in that AA. The bank's presence in Waco is limited and management has improved its community development activities in that region.

Killeen MSA

Community Development Loans

Qualified community development loans meet the definition of community development as defined in the CRA regulation and do not include loans given consideration under the Lending Test. Opportunities for community development lending are moderate and primarily in affordable housing within the Killeen-Temple-Fort Hood AA. The level of community development lending is satisfactory. NB has demonstrated responsiveness in identifying the need for affordable housing with its AA. The bank has made several construction loans for homes geared toward LMI income families. Since our last evaluation, the bank has made 25 loans for a total of \$2.27 million. The average loan balance was \$90,806. In addition, all of these properties were physically located in moderate-income census tracts in the AA. NB also renewed several multi-family loans for projects that rent to LMI families.

Community Development Services

Qualified community development 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. Opportunities for community development services are considered moderate and primarily in the areas of affordable housing and community services. The level of community development services is satisfactory. Bank officers have continued to provide financial services to qualifying groups such Care Net, Federal Housing Finance Agency, Meals on Wheels, Family Abuse Center, Salvation Army, Salley's House, Lions Club, and various other food and toy drives. The bank had donated moneys and provided services such as accounting, fund raising, technical expertise regarding budgeting, finance, planning, and financial education. Bank personnel have also hosted various seminars for financial literacy.

Responsiveness to Community Development Needs

NB's community development activities, as a whole, demonstrate adequate responsiveness to the needs within the AA. We contacted a community organization in order to independently determine the needs of the Killeen-Temple-Fort Hood MSA and make our assessment of the bank's performance. In general, the contact stated that tighter underwriting standards have reduced the availability of credit. The mortgage market for sub-prime borrowers has just about been eliminated and many borrowers can no longer meet the underwriting criteria. The contact felt that this was a function of the national markets and not something that could be addressed by the local community banks.

Waco MSA

NB has a limited presence in the Waco MSA with two branches. Only about 12% of their deposits were collected in this MSA as of the CRA examination date. At the present time, NB has no community development loans, investments, or services in the Waco MSA. Based on this data, NB shows poor responsiveness to community development needs within this particular AA. This is mitigated somewhat by their lower level of activity and presence in the Waco MSA. Additionally, Waco has a very competitive banking environment. Waco and McLennan County provide moderate opportunities for the bank to be involved in community development activities. We contacted a community organization to independently determine the needs of the Waco MSA and assess NB's performance. In general, the contact stated that local financial institutions are meeting the needs of the community, and there are no pressing community development issues that are not receiving attention. Comments from these contacts identified opportunities in outreach and teaching pertaining to financial expertise, and general knowledge of banking services targeted to LMI individuals.

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.