



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**June 4, 2007**

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

**First National Bank  
Charter Number 14012**

**601 Guadalupe  
George West, TX 78022**

**Comptroller of the Currency  
San Antonio South Field Office  
10101 Reunion Place Boulevard, Suite 402  
San Antonio, TX 78216**

**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.**

First National Bank's lending performance reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas. This rating is supported by the following factors:

- The average loan-to-deposit ratio of 70.87 percent for the prior 23 quarters is more than reasonable given the bank's asset size and overall financial condition, and exceeds the average loan-to-deposit ratio of similarly situated financial institutions in the bank's assessment areas.
- A majority of our sample of loan originations, representing 67 percent of the number and 58 percent of the dollar amount, were within the bank's assessment areas.
- The distribution of loans reflects a reasonable penetration to families of different income levels and business of different sizes.
- The geographic distribution of loans exceeds the standard for satisfactory performance and includes lending in low- and moderate-income areas.

## **DESCRIPTION OF INSTITUTION**

First National Bank (FNB) is a wholly owned subsidiary of Live Oak Bancshares Corporation, Delaware which is a wholly owned subsidiary of Live Oak Bancshares Corporation, George West, Texas. Live Oak Bancshares had assets of \$14 million as of December 31, 2006. FNB's main office is located in George West, Live Oak County, Texas with branches in Three Rivers, Live Oak County, Texas; Floresville, Wilson County, Texas; and San Antonio, Bexar County, Texas. The branches in Wilson and Bexar Counties are located in moderate-income census tracts. Automatic teller machines are located at the main office and at the Three Rivers and Floresville branches. Competition in the bank's assessment areas is strong with 43 offices or branches of national, state, and savings banks, and numerous credit unions.

Based on the bank's financial condition, local economies, product offerings, competition, and prior performance, FNB has the ability to meet the various credit needs in its communities. No legal impediments or other factors hinder the bank's ability to meet the credit needs of the assessment areas. The bank was rated "Satisfactory" at the previous CRA examination on October 1, 2001. FNB has total assets of \$139 million with total loans of \$94 million, or 68 percent of total assets, as of March 31, 2007. A summary of the bank's lending activity as of March 31, 2007 is reflected in the following table.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
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<b>Commercial Real Estate Loans</b>	<b>42,266</b>	<b>45</b>
<b>Commercial Loans</b>	<b>18,722</b>	<b>20</b>
<b>Residential Real Estate Loans</b>	<b>14,864</b>	<b>16</b>
Agricultural Loans	9,481	10
Consumer Loans	8,887	9
Other Loans	76	<1%
Total	94,296	100

*Source: March 31, 2007 Consolidated Report of Condition*

We selected a sample of commercial loans, commercial real estate loans, and residential real estate loans for our loan file review. These loan categories represent the bank's three primary lending products.

## **DESCRIPTION OF FNB'S ASSESSMENT AREAS**

FNB has three designated assessment areas (AAs) consisting of Live Oak County, Wilson County, and Bexar County.

### **Live Oak County**

Live Oak County includes the cities of George West, the county seat, and Three Rivers which are not in Metropolitan Statistical Areas (MSA). George West is located approximately 80 miles south of San Antonio. The AA has only four census tracts, and they are all designated as middle-income. Originally, the primary economic activity in the George West area was ranching and agriculture. Since the 1920s, oil and gas have assumed an equal economic role. Tourism has increased with the development of recreational facilities at Choke Canyon State Park and Lake Corpus Christi State Recreation Area.

### **Wilson County**

Wilson County includes the city of Floresville, the county seat, which is in the San Antonio MSA. The AA consists of nine census tracts including one moderate-income and eight middle-income. Original growth in Floresville was supported by the cotton and livestock industry. Later, peanuts were developed as a cash crop. The town still serves as a market center for area peanut, small grain, and cattle producers. Many residents now commute to work in San Antonio.

### **Bexar County**

Bexar County includes the city of San Antonio, the county seat, which is the second-largest city in the state of Texas and the seventh-largest city in the United States. The AA consists of 278 census tracts including 12 low-income, 114 moderate-income, 79 middle-income, 70 upper-income, and 3 that have not been designated. The San Antonio area continues to experience strong population growth. Employment is centered in services and government including several military installations and a major medical and educational center. Tourism is the number one nongovernmental job category in the county.

The bank's AAs reasonably represent the bank's lending and service areas. The designation

meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Additional demographic information for the AAs is presented in the following table.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AAs</b>			
<i>Population</i>	<i>Live Oak County</i>	<i>Wilson County</i>	<i>Bexar County</i>
Number of Families	3,103	8,870	347,923
Number of Households	4,226	11,028	489,252
<i>Geographies</i>			
Number of Census Tracts	4	9	278
% Low-Income Census Tracts	0%	0%	4.32%
% Moderate-Income Census Tracts	0%	11.11%	41.01%
% Middle-Income Census Tracts	100.00%	88.89%	28.42%
% Upper-Income Census Tracts	0%	0%	25.18%
% Not Applicable	0%	0%	1.08%
<i>Median Family Income (MFI)</i>			
2000 Census MFI for AA	36,380	44,591	44,591
2001 HUD-Adjusted MFI	35,800	45,300	45,300
2002 HUD-Adjusted MFI	36,100	46,200	46,200
2003 HUD-Adjusted MFI	41,200	50,500	50,500
2004 HUD-Adjusted MFI	42,000	51,500	51,500
2005 HUD-Adjusted MFI	42,000	51,500	51,500
2006 HUD-Adjusted MFI	43,100	53,100	53,100
<i>Economic Indicators</i>			
Unemployment Rate	2.12%	2.21%	2.66%
2006 Median Housing Value	53,465	72,925	82,887
% of Households Below Poverty Level	15.64%	12.20%	14.30%

Source: U.S. Census data.

In order to gather current information on the nature of the community and potential lending opportunities within the AAs, we contacted a trade association during this evaluation. The contact spoke favorably regarding the performance of the local financial institutions in general and FNB in particular.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

FNB's average loan-to-deposit ratio of 70.87 percent for the prior 23 quarters is more than reasonable when compared to the bank's size, financial condition, competition, and assessment area credit needs. The following table compares FNB's loan-to-deposit ratio to other bank's in the AA that are similarly situated by size, market area, and/or number of branches.

<b>Institution</b>	<b>Total Assets as of 3/31/07 (000s)</b>	<b>Average LTD Ratio</b>
<i>First National Bank, George West</i>	138,729	70.87%
Lone Star Capital Bank, N.A.	134,360	55.46%
Falls City National Bank	119,129	49.39%
Nixon State Bank	62,955	44.03%
First State Bank, Three Rivers	85,885	39.96%

Source: Call Report information.

### **Lending in Assessment Area**

The bank extends a majority of its loans to borrowers in the AAs. To arrive at this assessment we reviewed all residential related loans originated in 2005 and 2006 and reported in the bank's Home Mortgage Disclosure Act (HMDA) loan register. For our analysis, we also used a random sample of commercial loans made during 2005, 2006, and the first five months of 2007. Of our total sample of loans, 67 percent of the number and 58 percent of the dollar amount were made to borrowers in the AAs, as indicated in the following table.

<b>Total Loans Reviewed</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	225	64	124	36	349	16,094	55	13,266	45	29,360
Commercial	48	80	12	20	60	3,703	81	853	19	4,556
Totals	273	67	136	33	409	19,797	58	14,119	42	33,916

Source: Loan sample; data reported under HMDA.

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

The following narratives and tables reflect FNB's lending performance to borrowers of different income levels for residential related loans originated in 2005 and 2006, and commercial loans made during 2005, 2006, and the first five months of 2007. FNB meets the standard for residential real estate lending, and exceeds the standard for lending to small businesses in all three AAs. The overall loan distribution to individuals within the AAs by different income levels meets the standard for satisfactory performance.

Our analysis of residential lending activity in the Live Oak County AA reflected percentages lower than those reported in the demographic data for low-income families. Households below the poverty level represent 16 percent of the total households in the AA. The level of income based on the 2006 HUD-adjusted median family income for this household segment is \$21,550. This low level could inhibit potential borrowers from qualifying for residential loans since the 2006 median housing value is \$53,465. Residential lending activity to moderate-income borrowers approximates the demographic data for moderate-income families. The following table lists results from 92 residential loans totaling \$4.5 million made to borrowers in the Live Oak County AA.

<b>Borrower Distribution of Residential Real Estate Loans in Live Oak County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families	22%		15%		22%		41%	
	% of Number	% of Amount						
Total	8%	2%	11%	7%	19%	16%	62%	75%

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

The following table indicates FNB's lending to small businesses exceeds the demographic data in our sample of 20 commercial loans totaling \$1.1 million made to borrowers in the Live Oak County AA.

<b>Borrower Distribution of Loans to Businesses in Live Oak County</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	46%	3%
% of Bank Loans in AA #	85%	15%
% of Bank Loans in AA \$	61%	39%

Source: 2006 Business Geodemographic Data; loan sample. \*The remaining 51 percent of business in this AA did not report revenues during this evaluation period.

Our analysis of residential lending activity in the Wilson County AA reflected percentages that approximate those reported in the demographic data for low- and moderate-income families. The following table lists results from 89 residential loans totaling \$7.6 million made to borrowers in the Wilson County AA.

<b>Borrower Distribution of Residential Real Estate Loans in Wilson County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families	19%		19%		21%		41%	
	% of Number	% of Amount						
Total	16%	6%	19%	14%	25%	18%	40%	62%

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

The following table indicates FNB's lending to small businesses exceeds the demographic data in our sample of 20 commercial loans totaling \$2.6 million made to borrowers in the Wilson County AA.

<b>Borrower Distribution of Loans to Businesses in Wilson County</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	57%	2%
% of Bank Loans in AA #	80%	20%
% of Bank Loans in AA \$	66%	34%

Source: 2006 Business Geodemographic Data; loan sample. \* The remaining 41 percent of business in this AA did not report revenues during this evaluation period.

Our analysis of residential lending activity in the Bexar County AA reflected percentages lower than those reported in the demographic data for low-income families. Households below the poverty level represent 14 percent of the total households in the AA. The level of income based on the 2006 HUD-adjusted median family income for this household segment is \$26,550. This low level could inhibit potential borrowers from qualifying for residential loans since the 2006 median housing value is \$82,887. Residential lending activity to moderate-income borrowers approximates the demographic data for moderate-income families. The bank made 33 residential loans in Bexar County. However, one home purchase loan in the amount of \$150 thousand was made in one of the census tracts designated not applicable and was not included in our calculations. The following table lists results from 32 residential loans totaling \$2.8 million made to borrowers in the Bexar County AA.

<b>Borrower Distribution of Residential Real Estate Loans in Bexar County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families	25%		20%		20%		35%	
	% of Number	% of Amount						
Total	6%	3%	22%	9%	22%	11%	50%	77%

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

The following table indicates FNB's lending ratio to small businesses exceeds the demographic data in our sample of 20 commercial loans totaling \$1.1 million made to borrowers in the Bexar County AA.

<b>Borrower Distribution of Loans to Businesses in Bexar County</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	67%	5%
% of Bank Loans in AA #	80%	20%
% of Bank Loans in AA \$	81%	19%

Source: 2006 Business Geodemographic Data; loan sample. \* The remaining 28 percent of business in this AA did not report revenues during this evaluation period.

## Geographic Distribution of Loans

Our analysis of geographic distribution was limited to the Wilson County and Bexar County AAs. The Live Oak County AA's four census tracts are all designated middle-income. Overall, the geographic distribution of loans made within the Wilson County and Bexar County AAs exceeds the standard for satisfactory performance. The number of loans in the Wilson County moderate-income tract are more than double that of the demographic comparator. Overall, the ratios of loans in Bexar County low- and moderate-income tracts exceed the demographic ratios.

The following table lists results from our sample of 89 residential loans totaling \$7.6 million made to borrowers in the Wilson County AA.

Geographic Distribution of Residential Real Estate Loans in Wilson County								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families	0%		12%		88%		0%	
	% of Number	% of Amount						
Total	0%	0%	25%	15%	75%	85%	0%	0%

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

The following table lists results from our sample of 20 commercial loans totaling \$2.6 million made to borrowers in the Wilson County AA.

Geographic Distribution of Commercial Loans in Wilson County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
% of AA Businesses	0%		18%		82%		0%	
	% of Number	% of Amount						
Total	0%	0%	50%	41%	50%	59%	0%	0%

Source: 2006 Business Geodemographic Data; loan sample.

The following table lists results from 33 residential loans totaling \$2.9 million made to borrowers in the Bexar County AA.

Geographic Distribution of Residential Real Estate Loans in Bexar County								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families	2%		34%		27%		37%	
	% of Number	% of Amount						
Total	0%	0%	67%	48%	18%	19%	15%	33%

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

The following table lists results from our sample of 20 commercial loans totaling \$1.1 million made to borrowers in the Bexar County AA.

<b>Geographic Distribution of Commercial Loans in Bexar County</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
% of AA Businesses	2%		32%		30%		36%	
	% of Number	% of Amount						
Sample	5%	1%	70%	88%	10%	3%	15%	8%

*Source: 2006 Business Geodemographic Data; loan sample.*

### **Responses to Complaints**

No complaints relating to CRA performance were received during the 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.