



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 19, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Lake Area National Bank
Charter Number 20218**

**1414 South Robb Street
Trinity, TX 75862**

**Comptroller of the Currency
Houston Field Office
1301 McKinney Street, Suite 3750
Houston, TX 77010**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

Lake Area National Bank has a satisfactory record of meeting credit needs within the community. This rating is supported by the following:

- The loan-to-deposit ratio meets standards for satisfactory performance.
- A majority of loans have been originated within the assessment area.
- The distribution of loans to borrowers of different incomes reveals a good penetration of consumer loans to low-and moderate-income individuals. (Residential real estate loans indicate an under representation of loans to low-and moderate-income individuals.)
- 100% of commercial loans sampled have been made to small businesses.
- The bank's Assessment area does not include any low-income census tracts, therefore further analysis of geographic distribution would not be meaningful. The bank's assessment area does contain two moderate tracts. Further analysis of these tracts was unable to be performed.
- No record of public complaints regarding the bank's CRA performance.

DESCRIPTION OF INSTITUTION

Lake Area National Bank is a locally-owned independent bank located in Trinity, Texas. The bank has total assets of \$20 million including a loan portfolio of \$12 million as of March 31, 2001. The loan portfolio is comprised of Residential Real Estate loans (38%), Consumer loans (33%), and Commercial loans (28%). Total deposits are \$19 million.

The bank offers a variety of traditional deposit and loan products and services. Types of deposit accounts and services available include demand deposit accounts (DDA) - Personal, Business, Student, and Senior Citizens, Now Accounts, Savings accounts, Money Market accounts, Certificate of Deposits, Individual Retirement Accounts, Safety Deposit Boxes, and automated teller machine (ATM) cards. Loan products available include Real Estate loans, Business-Commercial Loans, Consumer Loans, and Agricultural-Business Loans.

The bank has two locations, one in Trinity and one in Huntsville, and one ATM located at the main branch in Trinity.

The last CRA examination was dated April 18, 1997.

Loan Category	\$ (000)	%
Residential Real Estate Loans	4,538	38%
Consumer Loans	4,007	33%
Commercial Loans	3,411	28%
Total	12,196	99%

DESCRIPTION OF ASSESSMENT AREA

Lake Area National Bank's assessment area (AA) consists of five continuous geographies: five Block Numbering Areas (BNAs). The BNAs include three BNAs from Trinity County (9503, 9504, & 9505) and two BNAs from Walker County (1901 and 1904). None of the BNAs are located in a Metropolitan Statistical Area. This AA meets the legal requirements of the Community Reinvestment Act.

The three BNAs located in Trinity County have a population of 6,343 and the two BNAs located in Walker County have a population of 16,885. The tracts consist of two moderate-income tracts (9503 and 9505) and one middle-income tract (9504) in Trinity County, as well as two upper-income tracts in Walker County (1901 and 1904). The 1990 U.S. Census statewide median family income (MFI) for non-metropolitan statistical areas (Non-MSAs) is \$24,585. The HUD-updated 2001 figure is \$35,800. The 1990 Census data for the **Trinity** assessment area reflected 27.3% low-income families, 14.4% moderate-income families, 18.5% middle-income families, **39.7% upper-income** families, and 20.2% families below poverty level. The 1990 Census data for the **Walker** Assessment area reflected 14.5% low-income families, 14.4% moderate-income families, 15.3% middle-income families, **55.8% upper-income** families, and 9.2% families below poverty level.

Thirteen percent of the residents are over 65 years of age and over 50% of the assessment area households rely on retirement or social security as their primary source of income. The 2000 Census data reflects 22% of persons in the bank's assessment area are institutionalized.

The area is primarily rural. The major employers in the area are several prisons, Sam Houston State University, two steel fabricators located in Trinity, retail trade businesses, and the timber business.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	5,223
Number of Households	7,557
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	40
% Middle-Income Census Tracts/BNA	20
% Upper-Income Census Tracts/BNA	40
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	29,025
2000 HUD-Adjusted MFI	34,700
2001 HUD-Adjusted MFI	35,800
<i>Economic Indicators</i>	
Unemployment Rate	2.60%
1990 Median Housing Value	53,644
% of Households Below Poverty Level	20.83%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The Loan-to-Deposit ratio is reasonable, given the bank's size, financial conditions, and assessment area credit needs, and when compared to similarly situated banks. Lake Area National Bank's average loan-to-deposit ratio for the last 17 quarters (June 1997 to June 2001) since the previous CRA evaluation is 57%. The last exam reflected an average loan-to-deposit ratio of 35%.

Performance was compared with other similarly situated institutions operating in the close proximity of the bank's assessment area. Two similar banks were selected for comparison based on asset size and location. The period of comparison is the most recent 14 quarters as opposed to the 17-quarter history since the bank's last CRA evaluation because information for 1997 on the other institutions was no longer readily available. See the table below:

Institution	Assets (as of 06/30/01)	Average LTD Ratio
First National Bank-Trinity	34,823	47%
Lovelady State Bank	27,433	54%
<i>Lake Area National Bank</i>	21,948	60%

As shown above, the bank’s loan-to-deposit ratio was higher than two comparable institutions.

Lake Area National Bank maintains 33% deposit market share in the Trinity AA and FNB of Trinity maintains 67% deposit market share in the area.

In the Walker AA, Lake Area National Bank has a very small deposit market share. This is due to the increased competition in this area. The following is a list of the bank competitors in Walker County and the prospective market share for each institution. First National Bank of Huntsville (35.68%), Bank of America (22.24%), Guaranty Bank (21.43%), East Texas National Bank of Palestine (8.79%), Citizens Bank of Texas (8.22%), First State Bank (1.85%), Lake Area National Bank (1.09%), and First National Bank of Texas (.70%)

See Table below for comparison of each bank’s portfolio mix:

Consumer Loans		Residential Loans		Commercial Loans		Agriculture Loans	
Lake Area NB	33%	38%		28%		2%	
FNB of Trinity	26%	62%		14%		2%	
Lovelady St Bk	44%	20%		26%		12%	

Lending in Assessment Area

A substantial majority of loans were made within the defined assessment area. A review of a sample of loans disclosed that 91 of 108 loans sampled or 84% of the number and 88% of the dollar amount of loans (\$3.2 million of \$3.7 million total) were made in the bank’s assessment area. The sample included 25 Commercial loans, 55 Real Estate loans, and 28 consumer loans.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	24	86%	300,669	85%	4	14%	53,252	15%
Real Estate	50	91%	2,220,595	90%	5	9%	245,000	10%
Commercial	18	72%	777,415	83%	7	28%	147,210	16%
Total Reviewed	92	85%	3,298,679	88%	16	15%	445,462.	12%

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

Overall, performance for lending to borrowers of different incomes and businesses of different sizes is reasonable, primarily because of the excellent penetration in Consumer Lending and in Small Business lending. Residential Real Estate lending to low-and-moderate-income families needs improvement. Real Estate lending represents the bank's primary product (38%), followed closely by Consumer loans (33%) and Commercial loans (28%).

Lending to Individuals

Consumer lending to persons of different incomes is excellent. (55% to low-and moderate-income applicants overall based on sampling)

The bank has low penetration in loans to low-and-moderate-income borrowers for residential real estate loans. The sample of 61 residential real estate loans revealed 15% of the loans were to low-to-moderate-income families, 21% to middle-income families, and 64% to upper-income families.

An analysis was performed of the five tracts, and revealed the following statistical data on the community: The population consist of 19% low-income families, 14% moderate-income families, 17% middle-income families, and 50% upper-income families.

The updated median family income for the AA was \$35,800, therefore an annual income of \$43,000 or over is considered upper income in this community. The community has a large portion of its population living on retirement income.

With these factors in mind, the bank's low penetration in the low- to moderate-income levels is understandable. The bank is pursuing programs that will enhance their lending to families from low-to moderate-income levels.

Small Business lending is satisfactory. (100% of sample was to businesses with incomes under \$1 million)

To assess the distribution of loans to borrowers of different incomes, a random sampling of loans made to individuals in the AA since the last CRA exam was reviewed. The table below displays the distribution for the 22 consumer loans and 61 residential real estate loans that have been originated compared with the number of assessment area households in each income level.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	19%		14%		17%		50%	
LOANS BY YEAR	% of Number	% of Amount						
1999	0	0	50%	40%	0	0	50%	60%
2000	13%	2%	38%	15%	13%	6%	36%	77%
2001	20%	8%	40%	31%	10%	8%	30%	53%
Total	14%	4%	41%	26%	9%	5%	36%	65%

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	19%		14%		17%		50%	
LOANS BY YEAR	% of Number	% of Amount						
1998	14%	2%	14%	9%	0%	0%	72%	89%
1999	5%	2%	0%	0%	21%	15%	74%	83%
2000	5%	1%	25%	33%	25%	17%	45%	49%
2001	0%	0%	0%	0%	27%	22%	73%	78%
Total	5%	1%	10%	9%	21%	15%	64%	75%

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93%	7%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

Geographic Distribution of Loans

The bank does not have any low-income tracts in their assessment area, therefore an analysis of geographic distribution would not be meaningful. Due to the rural nature of the two moderate areas, further analysis was not possible.

Responses to Complaints

No complaints relating to the bank's CRA performance have been made since the last CRA exam.

Compliance with Anti-discrimination Laws and Regulations

An analysis of three years public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.