



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

October 08, 2008

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

National Bank  
Charter Number: 4097

905 Main Street  
Gatesville, TX 76528-0779

Office of the Comptroller of the Currency

SAN ANTONIO – NORTH FIELD OFFICE  
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 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 area (AA).
- NB’s loan-to-deposit (LTD) ratio is reasonable and has averaged 66% for this evaluation period.
- A substantial majority of NB’s loans are within its AA. Approximately 93% 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, but considered satisfactory.
- NB exceeds the standard for lending to small businesses.
- The geographic distribution of the bank’s loans within the AA is reasonable.
- NB’s community development performance demonstrates satisfactory responsiveness to the community development needs of its primary AA.
- There have been no complaints with respect to NB’s performance under the Community Reinvestment Act (CRA).

## **SCOPE OF EXAMINATION**

We evaluated NB’s CRA performance under the Intermediate/Small Bank examination procedures, which include a lending test and a community development test. The lending test evaluates the bank’s record of meeting the credit needs within its AA through its lending activities. The current review focused on commercial real estate, commercial, and construction/development loans from January 1, 2006, through September 30, 2008. In addition, our review focused on residential real estate for Home Mortgage Disclosure Act of 1975 (HMDA) reportable years 2006 and 2007. A data integrity review of the HMDA was conducted during this onsite examination to confirm the reliability of the HMDA Loan Application Register (LAR) data. We focused our review on these primary loan products because they represent over 74% of the total loan portfolio as of the examination date. Additionally, we performed a community development test, reviewing community development loans, services, and investments since the last CRA examination of February 2006 through September 30, 2008. The community development test evaluates the bank’s responsiveness to the community development needs within its AAs.

## DESCRIPTION OF INSTITUTION

NB is a community bank headquartered in Gatesville, Texas, with total assets of \$472 million as of June 30, 2008. The bank's seven branch locations in the Killeen metropolitan statistical area (MSA) include Gatesville, Lampasas, Killeen, Copperas Cove, and Kempner. The Copperas Cove location includes an investment center, and the Killeen location includes a mortgage lending department. The Waco MSA includes two branches, one in Waco and one in Hewitt. Each branch is a full-service branch with an automated teller machine (ATM), with the exception of Kempner. The Kempner location offers more limited services, though loan applications are accepted and forwarded to the Copperas Cove location. The branches in Waco and Kempner have both been opened since the last CRA examination. There have not been any significant changes to NB's corporate structure, including merger or acquisition activities, since the last CRA examination.

The bank offers a full range of deposit and loan products and services. NB's loan portfolio is composed primarily of residential and commercial-related loans. Deposit products and services include a couple of options for no-cost, basic checking accounts with minimal \$1 deposit requirements at account opening. All ATMs offer 24-hour self-service, and the Tele-Bank system gives customers around-the-clock access to most banking functions. Also, the bank's website provides another option for customers to access account information. NB also has a dedicated mortgage lending department that primarily serves the large military population of the Killeen area.

As of June 30, 2008, NB reported net loans of \$299 million and had a net loans to total assets ratio of 63%. The loan portfolio composition is as follows:

<b>LOAN PORTFOLIO COMPOSITION</b>		
<b>Loan Category</b>	<b>\$000s</b>	<b>%</b>
Commercial Real Estate Loans	100,885	33.73%
Residential Real Estate Loans	70,052	23.42%
Consumer Loans	31,955	10.68%
Construction & Land Development Loans	26,644	8.91%
Commercial & Industrial Loans	24,172	8.08%
Agricultural Loans	23,949	8.01%
Farmland Loans	15,211	5.09%
Obligations of State/Political Subdivisions	4,491	1.50%
Other Loans	1,713	0.57%
<b>Total</b>	<b>299,072</b>	<b>100%</b>

*Source: Institution Consolidated Reports of Condition as of June 30, 2008*

NB faces strong competition from area banks, savings and loans, and investment brokerage firms, especially in the Waco MSA. Based on its financial condition, the local economy, product offerings, competition, and prior performance, NB has the ability to meet the credit needs in its community. No legal impediments or other factors hinder its ability to provide credit in its AA. NB received a "Satisfactory" rating at its previous CRA examination, conducted as of December 31, 2005.

## DESCRIPTION OF ASSESSMENT AREAS

### *Killeen-Temple-Fort Hood MSA*

NB's primary AA includes the entire counties of Bell, Coryell, and Lampasas Counties. These counties include the primary communities of the Killeen-Temple-Fort Hood MSA, though NB does not have any branches in Temple. Killeen is located 59 miles southwest of Waco and 76 miles north of Austin. Gatesville, where the primary banking offices are located, is 39 miles north of Killeen. The Killeen MSA includes 62 census tracts, which surround and include the five banking offices in this AA. Specific demographic and economic data for this AA is listed in the table below.

<b>Table 2a</b>	
<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF KILLEEN MSA</b>	
<b><i>Population</i></b>	
Number of Persons	330,714
Number of Families	82,987
Number of Households	111,867
<b><i>Geographies</i></b>	
Number of Census Tracts	62
% Low-Income Census Tracts	1.61%
% Moderate-Income Census Tracts	20.97%
% Middle-Income Census Tracts	58.06%
% Upper-Income Census Tracts	19.35%
<b><i>Median Family Income (MFI)</i></b>	
2000 MFI for AA	\$40,972
HUD-Adjusted MFI	\$49,600
<b><i>Economic Indicators</i></b>	
Unemployment Rate	2.56%
Weighted Average of Median Housing Value	\$72,483
% of Owner-occupied Properties	51.91%
% of Households Below Poverty Level	11.26%

*Source: 2000 U.S. Census Data*

According to year-end 2000 housing data as provided in the U.S. Census, there are 122,159 housing units in the AA. Of these housing units, 52% are owner-occupied, 40% are renter-occupied and 8% are vacant. The median year built for housing was 1978 with a median house value of \$72,483. Based on more current demographic information, the median priced home in 2007 was about \$116,000.

Based on 2000 Census data, the AA has a combined population of 330,714. Approximately 19% of the households in the AA are considered low-income. Moderate-income households approximate 18%, while middle- and upper-income families comprise the remaining 63%. According to the Bureau of Labor Statistics, the unemployment rate for the Killeen MSA for July 2008 was 5.2%, an increase from the 2.6% reported in 2000 Census data. According to the Texas Workforce Commission, 26.7% of the Killeen-Temple-Fort Hood MSAs labor market is government, 13.8% is education and health services and 12.3% is retail trade. The top three major employers in the city of Killeen are the U.S. Military at Fort Hood, Killeen ISD, and civilian personnel in support of military operations in the area.

As part of this examination, we conducted two community contacts. We spoke with the Director of Community Development for the City of Killeen. The community contact stated the Killeen area has experienced consistent economic growth over the past ten years, and that affordable housing for LMI families is an ongoing need, but primarily for very low-income individuals – or those below the poverty line. We also contacted the President of the Gatesville Chamber of Commerce, who stated that Gatesville was fairly diverse and well-situated for growth. The current focus of the Chamber is to attract higher-paying professional jobs to the area. Both contacts stated that local banks are active in meeting the credit needs of the community.

### **Waco MSA**

NB's second AA includes all of McLennan County, which is located in the Waco MSA. Waco is located 90 miles south of Dallas/Fort Worth, 90 miles north of Austin and 180 miles northwest of Houston. This area is made up of 51 census tracts, which surround and include the two banking offices, although both offices are clustered toward the southern portion of the city. Specific demographic and economic data for this AA is listed in Table 2b.

<b>Table 2b</b>	
<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF WACO MSA</b>	
<b>Population</b>	
Number of Persons	213,517
Number of Families	53,122
Number of Households	78,926
<b>Geographies</b>	
Number of Census Tracts	51
% Low-Income Census Tracts	9.80%
% Moderate-Income Census Tracts	27.45%
% Middle-Income Census Tracts	31.37%
% Upper-Income Census Tracts	31.37%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$41,455
HUD-Adjusted MFI	\$50,400
<b>Economic Indicators</b>	
Unemployment Rate	3.64%
Weighted Average of Median Housing Value	\$62,261
% of Owner-occupied Properties	55.97%
% of Households Below Poverty Level	17.63%

*Source: 2000 U.S. Census Data*

According to year-end 2000 housing data as provided in the U.S. Census, there are 87,400 housing units in the AA. Of these housing units, 56% are owner-occupied, 37% are renter-occupied and 7% are vacant. The median year built for housing was 1970 with a median house value of \$62,000. Based on current 2008 demographic information, the average house value is about \$89,000.

Based on the 2000 Census data, the AA has a combined population of 213,000. Approximately 11% of the households in the AA are considered low-income. Moderate-income households approximate 25% of the population, while middle- and upper-income households comprise the remaining 64%.

According to the Bureau of Labor Statistics, the unemployment rate for the Waco MSA for July 2008 was 4.8%, an increase compared to the rate of 3.6%, which was reported in 2000 U.S. Census Data. According to the Texas Workforce Commission, 19% of McLennan County’s labor market is educational and health services, 16% is government and 16% is trade, transportation and utilities. The top three major employers in McLennan County are McLennan County Independent School Districts, Baylor University and Providence Health Center.

We recently conducted two community contacts in the Waco MSA. We spoke with the program administrator of Waco Community Development. The community contact stated that there are some opportunities for education and outreach for LMI populations, specifically by informing this population of the benefits of a banking relationship compared to other options in the marketplace, and teaching account management skills. We also contacted the president of the Greater Waco Chamber of Commerce, who stated that Waco has a diverse and growing economic base, with no industry comprising more than 20% of the economy. The Chamber also confirmed opportunities in education and outreach for un-banked populations. Both contacts stated that local banks are active in meeting the credit needs of the community.

## 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 60% to 72%. During this period, the ratio averaged 66%. This compares reasonably well 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.

<b>Institution</b>	<b>Assets as of 6/30/08 (000’s)</b>	<b>Average LTD Ratio %</b>
<i>National Bank</i>	<b>472,261</b>	<b>66.15</b>
First Texas Bank	103,541	41.02
First National Bank Texas, Killeen	787,580	43.47
Extraco Banks, N.A., Temple	1,096,189	78.16
First State Bank of Central Texas	1,005,128	78.70
Central National Bank, Waco	504,923	79.91

*Source: Consolidated Reports of Condition as of June 30, 2008*

### Lending in Assessment Area

NB originates a substantial majority of loans within its AAs, with a total of 93% of the total sample of 1,018 loans originated within the bank’s AAs. The bank made approximately 72.5% of the dollar volume of all loans sampled to borrowers located in the AAs. The following Table 4 shows NB’s record of lending in both AAs.

<b>Table 4</b>				
<b>LENDING IN ASSESSMENT AREA</b>				
	<b>In AA</b>		<b>Out of AA</b>	
<i>Loan Type</i>	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>
Residential	941	92%	77	76%
Commercial	42	95%	2	5%
<b>Total In/Out Sample</b>	<b>983</b>	<b>92.6%</b>	<b>79</b>	<b>7.4%</b>

*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 reasonable within its two AAs. Although residential real estate lending to LMI borrowers in the bank’s AA is well below area demographics, consideration of the bank’s performance context leads to an overall conclusion that NB meets the standard in residential real estate lending. 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, with a substantial majority of 86% of the bank’s deposits were collected in the five branches in the Killeen-Temple-Fort Hood MSA.

<b>Table 5a</b>								
<b>BORROWER DISTRIBUTION OF 1-4 FAMILY REAL ESTATE – KILLEEN MSA</b>								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>% of AA Families</i>	<i>% of # Loans</i>	<i>% of AA Families</i>	<i>% of # Loans</i>	<i>% of AA Families</i>	<i>% of # Loans</i>	<i>% of AA Families</i>	<i>% of # Loans</i>
Home Purchase	17.01	3.57	19.97	14.93	23.75	32.63	39.27	43.46
Home Improvement	17.01	2.13	19.97	17.02	23.75	31.91	39.27	48.94
Refinancing	17.01	4.60	19.97	9.20	23.75	26.44	39.27	54.02
<b>TOTAL</b>	<b>17.01</b>	<b>3.59</b>	<b>19.97</b>	<b>14.48</b>	<b>23.75</b>	<b>31.99</b>	<b>39.27</b>	<b>44.78</b>

*Source: U.S. Census Data; HMDA Data*

NB’s penetration of home mortgage loans to families of varying income levels meets the standard for satisfactory performance. As shown in Table 5a above, about 17% of the AA families are low-

income and 20% are moderate-income. Comparatively, the bank originated 4% of its residential real estate loans to low-income borrowers and 14% to moderate-income borrowers. NB’s lending to LMI families is a lower percentage than the demographic comparative data, but this performance is mitigated by the fact that about half of the moderate-income census tracts are in Temple or Belton, where the bank does not have any branch locations. This makes it difficult for the bank to easily serve borrowers in the Temple area. Another factor is that it is difficult for LMI families to qualify for mortgage loans at the median housing value. We also considered the AAs’ poverty rate of 11% in our analysis.

<b>Table 5b</b>			
<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES – KILLEEN MSA</b>			
Business Revenues	≤\$1,000,000	>\$1,000,000	N/A
% of AA Businesses	65.10%	3.20%	31.70%
% of Bank Loans in AA #	65.22%	34.78%	-
% of Bank Loans in AA \$	42.33%	57.67%	-

*Source: U.S. Census Data; Bank Records*

As illustrated in Table 5b above, 65.1% of AA businesses reported having annual revenues of \$1 million dollars or less. Comparatively, 65.2% of the number and 42% 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 or exceeds the standard, and illustrates excellent 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.

<b>Table 6a</b>								
<b>BORROWER DISTRIBUTION OF 1-4 FAMILY REAL ESTATE – WACO MSA</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	% of AA Families	% of # Loans	% of AA Families	% of # Loans	% of AA Families	% of # Loans	% of AA Families	% of # Loans
Home Purchase	20.68	12.50	17.54	6.25	21.36	6.25	40.42	71.88
Home Improvement	20.68	0.00	17.54	0.00	21.36	0.00	40.42	0.00
Refinancing	20.68	0.00	17.54	10.00	21.36	25.00	40.42	60.00
<b>TOTAL</b>	<b>20.68</b>	<b>7.69</b>	<b>17.54</b>	<b>7.69</b>	<b>21.36</b>	<b>13.46</b>	<b>40.42</b>	<b>67.31</b>

*Source: U.S. Census Data; HMDA Data*



As shown in Table 6a on the previous page, about 21% of the AA families are low-income and 18% are moderate-income. Comparatively, the bank originated less than 8% of its residential real estate loans to low-income borrowers and less than 8% to moderate-income borrowers. This data reveals that NB’s lending to LMI families is less than the opportunities in those census tracts. However, the performance context bears consideration in this case. The two Waco branches of NB are located in upper-income census tracts in the southern portion of the city, and are not positioned conveniently to LMI areas further north and east. According to management, and supported with Waco residential sale price information, there are also a limited number of homes available in the AA at selling prices that low-income families could qualify for.

<b>Table 6b</b>			
<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES – WACO MSA</b>			
Business Revenues	≤\$1,000,000	>\$1,000,000	N/A
% of AA Businesses	66.42%	5.13%	28.45%
% of Bank Loans in AA #	85.71%	14.29%	-
% of Bank Loans in AA \$	57.27%	42.73%	-

*Source: U.S. Census Data; Bank Records*

As illustrated in Table 6b above, 66% of AA businesses reported having annual revenues of \$1 million dollars or less. Comparatively, 86% of the number and 57% 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 bank’s performance exceeds the standard, and illustrates excellent performance in lending to small businesses.

**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 all loans made by the bank 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 a reasonable dispersion throughout census tracts of different income levels, including the moderate-income census tract. Within low-income tracts, 0.17% of units are considered owner-occupied housing. NB’s number of loans to individuals in low-income tracts is 0.34%, which exceeds the demographic comparative information. However, there is only one low-income census tract in this AA, and a small actual number of loans originated there. Therefore, we gave more consideration to loans originated in the MSA’s 13 moderate-income census tracts, most of which were home purchase loans. Although the bank’s percentage of lending in moderate-income tracts - in home purchase, home improvement, and overall - is less than the demographic comparative information, it is still sufficient to support a reasonable level of dispersion.

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.

<b>Table 7a</b>								
<b>GEOGRAPHIC DISTRIBUTION OF 1-4 FAMILY REAL ESTATE– KILLEEN MSA</b>								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% 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	0.17	0.13	8.68	5.28	61.34	80.58	29.81	14.00
Home Improvement	0.17	2.13	8.68	2.13	61.34	87.23	29.81	8.51
Refinancing	0.17	1.15	8.68	9.20	61.34	79.31	29.81	10.34
<b>TOTAL</b>	<b>0.17</b>	<b>0.34</b>	<b>8.68</b>	<b>5.50</b>	<b>61.34</b>	<b>80.81</b>	<b>29.81</b>	<b>13.36</b>

*Business Loans*

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout the census tracts of different income levels. In reviewing Table 7b below, the bank’s lack of lending in low-income census tracts does not compare favorably to the nearly 3% of businesses located in low-income census tracts in the AA. However, the Killeen-Temple-Fort Hood MSA has only one low-income census tract out of 62 total census tracts, and so the examination focused on the moderate-income census tracts. Here, the bank extended loans at 13% of the loan sample, compared to 16% of businesses physically located in a moderate-income census tract.

Following is Table 7b that further details the bank’s performance as compared to the percentage of businesses in each census tract income level.

<b>Table 7b</b>								
<b>GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES – KILLEEN MSA</b>								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% 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	2.97	0.00	16.42	13.04	55.38	52.17	25.24	34.78

*Waco MSA*

*Home Loans*

The bank’s geographic distribution of home loans in this AA reflects an excellent dispersion throughout census tracts of different income levels, including the moderate-income census tracts.

The percentage of owner-occupied housing in low-income census tracts is 4.8%, which does not compare favorably to the bank’s overall lending percentage of 1.92%. However, we considered the AA’s poverty rate of nearly 18% in our analysis, as well as NB’s limited and focused presence in Waco. In addition to a minor presence, the Waco MSA is considered a highly competitive banking market. NB’s primary focus in Waco is on commercial lending – not residential real estate lending.

In light of this information, the bank’s lending within low-income census tracts is reasonable and meets the standard for satisfactory performance. Within moderate-income census tracts, the bank shows an excellent dispersion of lending, with 19% of total 1-4 family real estate lending occurring in moderate-income census tracts. More weight was given to lending within moderate-income tracts, as the Waco MSA has only 5 low-income versus 14 moderate-income census tracts in the entire MSA.

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

<b>Table 8a</b>								
<b>GEOGRAPHIC DISTRIBUTION OF 1-4 FAMILY REAL ESTATE– WACO MSA</b>								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% 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	3.13	18.68	21.88	36.55	15.63	39.97	59.38
Home Improvement	4.80	0.00	18.68	0.00	36.55	0.00	39.97	0.00
Refinancing	4.80	0.00	18.68	15.00	36.55	20.00	39.97	65.00
<b>TOTAL</b>	<b>4.80</b>	<b>1.92</b>	<b>18.68</b>	<b>19.23</b>	<b>36.55</b>	<b>17.31</b>	<b>39.97</b>	<b>61.54</b>

*Business Loans*

NB’s geographic distribution of business loans in the Waco MSA reflects excellent dispersion throughout the census tracts of different income levels. The Waco MSA has 5 census tracts that are low-income and 14 that are moderate-income, out of a total of 51 census tracts. As a result, we placed more weight to the geographic dispersion in the moderate-income tracts versus the low-income tracts. The bank’s lack of lending in low-income census tracts, based on the loan sample, shows poor dispersion, and does not compare favorably to the percentage of AA businesses in a low-income census tract. However, the low-income census tracts are not close to NB’s two branches, which are located reasonably near each other in two upper-income census tracts in the southern portion of Waco-Hewitt, west of I-35. Considering competition in the area and the specific location of branches in the AA, it appears that it would be difficult for NB to be competitive in the low-income census tracts. Additionally, the low-income census tracts closest to NB’s branches appear to be primarily residential in nature, based on analysis. In moderate-income census tracts, the bank demonstrates excellent dispersion of lending to businesses based on our sample, as the 38% of bank lending in a moderate-income census tract exceeds the 29% of 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.

<b>Table 8b</b>								
<b>GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES – WACO MSA</b>								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% 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	4.60	0.00	29.00	38.10	29.56	19.05	36.84	42.86

**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. NB’s performance in the Waco MSA needs improvement. We gave much more weight to the bank’s community development performance in the Killeen-Temple-Fort Hood MSA, as 86% of the bank’s deposits are in that AA. The bank’s presence in Waco is limited and management has not focused on community development activities in that region.

***Killeen MSA***

**Community Development Loans**

Qualified community development loans are loans that 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, a historically consistent need in the Killeen-Temple-Fort Hood AA. The level of community development lending is satisfactory. NB has demonstrated adequate responsiveness to the identified need of affordable housing by making several multi-family loans for projects that rent at the median housing rates for LMI families. Since our last evaluation, the bank has made 7 loans for a total of \$2.35 million where more than half of each project is rented for at least the median rental rate for moderate-income families. Of the total 124 units, 118 units - or 95% - are at the median rental rate for low-income families, and 6 units - or 5% - are at the median rental rate for moderate-income families. In loan dollars, \$1.9 million - or 81% - funded low-income units and \$436 thousand - or 19% - funded moderate-income units. Four of these multi-family loans, totaling \$1,093 thousand, funded units in moderate-income tracts in the AA; one loan of \$250 thousand funded units in middle-income census tracts; and one loan of \$950 thousand funded 56 units in two middle income census tracts, and 8 units in a moderate income census tract.

The bank has also made several qualifying community development loans for the construction of affordable single-family homes. Since the last evaluation, NB has made 15 loans for construction of properties that sold at prices that would be affordable to LMI families. One of the homes was sold at a price considered affordable by low-income families, while the remaining 14 homes were

affordable to moderate-income families. All 15 properties were physically located in moderate-income census tracts in the AA.

### **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 adequate. Bank officers have continued to provide financial services to qualifying groups such the Salvation Army, Central Texas Housing Finance Board, Lions Club, and the City of Killeen Down Payment Assistance Seminar. Services that officers have provided include accounting, fund raising, technical expertise regarding budgeting, finance, planning, and financial education.

### **Responsiveness to Community Development Needs**

NB’s community development activities, as a whole, demonstrate adequate responsiveness to the needs and opportunities in this AA. We contacted two community organizations 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, both contacts 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. In the past, affordable housing has been more of a critical need, which is why NB has focused on lending for multi-family housing projects and construction of affordable single-family homes.

#### ***Waco MSA***

NB has a limited presence in the Waco MSA with two branches. Only about 14% 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, as well as a very competitive banking environment in that AA. Waco and McLennan County provide moderate opportunities for the bank to be involved in community development activities. We contacted two community organizations to independently determine the needs of the Waco MSA and assess NB’s performance. In general, both contacts 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. In the past, availability of LMI housing was a clearly stated need, though availability of LMI housing has improved somewhat over the past couple of years.

### **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.