



## **INTERMEDIATE SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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### **PUBLIC DISCLOSURE**

**February 07, 2006**

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

**National Bank  
Charter Number 4097**

**905 Main Street  
Gatesville, TX 76528**

**Comptroller of the Currency  
San Antonio - North Field Office – Austin Office  
8310 North Capital of Texas Highway, Suite 250  
Austin, Texas 78731-1080**

**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 COMMUNITY REINVESTMENT ACT (CRA) RATING:**

**This institution is rated "SATISFACTORY."**

**The Lending Test Rating: "Satisfactory."**

**The Community Development Test Rating: "Satisfactory."**

National Bank (NB) has a satisfactory record of meeting community credit needs based on the following:

- The bank's quarterly loan-to-deposit (LTD) ratio is satisfactory, averaging 68% since the prior examination.
- A substantial majority of NB's loans are within the bank's assessment areas (AAs). Approximately 96% of the number and dollar volume of loans were to borrowers within the AAs.
- NB's loan portfolio reflects a good distribution of residential loans among families of various income levels and a strong dispersion to businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AAs.
- The level of community development lending, investments, and services is satisfactory overall.
- The bank has not had any complaints concerning its CRA performance during the evaluation period.

## **SCOPE OF EXAMINATION**

This evaluation is based on the bank's performance since our prior evaluation, which is dated January 31, 2001. The Lending Test evaluation is focused on home mortgage (HMDA) and small business loan originations in 2004 and 2005. Management agreed that the evaluation of these two years of lending performance would be representative of lending performance in 2001 through 2005. Our conclusions are weighted more on a review of HMDA loans than commercial loans. The bank sells over 75% of the number of HMDA loans and over 80% of the dollars of HMDA loans it originates. In the last two years, the bank made 1,575 residential mortgages totaling \$156 million and sold 1,194 loans totaling \$127 million. Commercial lending is the second largest loan product. As of December 31, 2005, commercial lending was 29%, residential lending was 26%, and construction/land development lending (includes both residential and commercial real estate lending) was 13%. The evaluation period for the Community Development Test includes the day after the date of the prior CRA examination through February 7, 2006.

Prior to September 1, 2005, NB was subject to large bank data collection requirements for small business lending (CRA Data). After this date, the bank became an Intermediate Small Bank and was no longer subject to large bank requirements. Small business loan information collected through September 1, 2005, was available; however, a review of internal audits of the integrity of CRA Data showed that the data was not reliable. Therefore, at this evaluation, a sample of 40 small business loans, 20 from each calendar year under review, was reviewed. Conclusions regarding small business lending are based on that sample of 40 loans.

HMDA audits were reviewed for the same period and the integrity of that data was considered reliable. Consequently, all HMDA reported activity for 2004 and 2005 is included in this evaluation.

## **DESCRIPTION OF INSTITUTION**

NB, headquartered in Gatesville, Texas, is a wholly owned subsidiary of National United Bancshares. The bank was chartered in 1889. NB is an intra-state bank with total assets of \$403 million as of December 31, 2005. NB's primary strategic focus is commercial and residential lending.

NB has five branches in two AAs. Four branches, including the main bank, are located in the Killeen-Temple-Fort Hood (KTFH) Metropolitan Statistical Area (MSA). One branch is located in the Waco MSA (Hewitt, TX). The AAs are contiguous and do not arbitrarily exclude low- or moderate-income (LMI) geographies. Due to a highly competitive banking market in Waco, bank management has focused its marketing and expansion efforts in the KTFH MSA. There are no legal, financial, or other factors that impede NB's ability to help meet the credit needs in its AAs.

The prior CRA examination is dated January 31, 2001, and the bank was assigned an "Outstanding" rating under Small Bank criteria.

The following table reflects the composition of the bank's loan portfolio as of December 31, 2005.

<b>LOAN TYPE</b>	<b>DOLLAR AMOUNT\$ (000)</b>	<b>% OF TOTAL LOANS</b>
Real Estate (RE) Residential (1-4)	51,487	22.6
RE Nonfarm Nonresidential	46,253	20.3
RE Construction, Land Development	29,991	13.2
Consumer	29,383	12.9
Agriculture Production	20,750	9.1
Commercial and Industrial	19,869	8.7
RE Farmland	16,106	7.1
Multifamily	7,500	3.3
Obligations of States & Political Entities	6,037	2.7
Other	224	0.1
<b>Total</b>	<b>\$227,600</b>	<b>100%</b>

Source: Consolidated Reports of Condition December 31, 2005

NB provides a wide range of traditional deposit and loan products. The branches are generally located in areas that make them accessible to persons from the different areas of the communities they serve. Lobby and drive-up hours are set by location to meet customer needs, and NB has automated teller machines (ATMs) at branches and other locations in their market to make customer accounts accessible.

Customers may also access their accounts through telephone banking or by the Internet ([www.natlbank.com](http://www.natlbank.com)). Internet and phone banking services include transfers between NB accounts, review of balances or transactions, and bill-paying capability for the Internet banking product. The bank also offers a debit card that provides customers with additional access to their accounts at point of sale or ATM locations.

The following provides information regarding the AAs and further information can be obtained from the bank's public file.

## **DESCRIPTION OF KILLEEN-TEMPLE-FORT HOOD AA**

Performance in the KTFH AA is given more consideration as a significant majority of both the number and volume of the bank's loans and deposits are within that AA. The KTFH AA is located in Central Texas, and is comprised of three counties. The seats for Bell, Coryell, and Lampasas counties are Belton, Gatesville, and Lampasas, respectively. The largest cities within these counties are Temple (Bell), Killeen (Bell), Gatesville (Coryell), Copperas Cove (Coryell), and Lampasas (Lampasas). The Fort Hood Army Base, also located within the AA, is the largest active duty armored post in the United States Armed Forces. Economic conditions within the AA are strong, as evidenced by consistent annual growth in the above-mentioned cities.

Given Fort Hood’s designation as the largest employer in the AA, the post has a tremendous impact on the local economies. Over the years, the federal government has closed several bases throughout the United States; however, Fort Hood continues to remain a stronghold of the Armed Forces. Demographic information for the AA derived from the 2000 Census is reflected on the chart below.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b>Population</b>	
Number of Families	82,987
Number of Households	111,867
<b>Geographies</b>	
Number of Census Tracts (CTs)/Block Numbering Areas (BNAs)	62
% Low-Income CTs/BNA	1.61
% Moderate-Income CTs/BNA	20.97
% Middle-Income CTs/BNA	58.06
% Upper-Income CTs/BNA	19.35
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	42,349
2005 Department of Housing and Urban Development (HUD)-Adjusted MFI	47,300
<b>Economic Indicators</b>	
Unemployment Rate	2.56
2005 Median Housing Value	72,483
% of Households Below Poverty Level	11

Source: 2000 Census data and 2005 HUD updated income data.

This area is made up of contiguous CTs, which surround and include NB’s respective business locations. This area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. A further description of the AA is presented below.

Based on the 2000 Census data, the AA has a population of approximately 332 thousand. The AA is comprised of 1 low-, 13 moderate-, 36 middle-, and 12 upper-income CTs. There are 122 thousand housing units in the AA of which 52% are owner-occupied, 40% renter-occupied, and 8% vacant. Major employers located in and/or adjacent to the AA include Fort Hood, defense contractors, school districts, city and county governments, medical facilities, and local colleges and universities.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted the Killeen Program Manager for the HOME Program. The objective of the HOME Program is to:

- Raise financial awareness for first-time homebuyers;
- Provide affordable housing to lower-income households;
- Expand the capacity of non-profit housing providers;
- Strengthen the ability of State and Local governments to provide housing;
- Remove physical barriers in housing for individuals with disabilities; and
- Leverage private-sector participation.

The community contact indicated that there is a need within the community for additional affordable housing (purchase) and rental housing programs. The contact further stated that local residents were wait-listed for these programs as the City of Killeen assisted 4-thousand evacuees from Hurricane Katrina. While a supply of rental units may exist, renters are often not able to obtain the deposit, which often equals 2-3 months' rent by some landlords. Although recent Fort Hood deployments have freed up a number of housing units, demand continues for both of these housing programs. Funding for these programs is provided through HUD. In addition, the City of Killeen receives funds from the Home Investment Partnership Act Program. The community contact was complimentary on the local institution's performance in meeting community credit needs.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **LENDING TEST**

The bank's performance under the Lending Test is rated "Satisfactory." To assess performance under this criteria, we used HMDA information relative to home purchase loan products originated between 2004 and 2005, and a sample of commercial loans originated over the same time period. Greater consideration was afforded home purchase loans because they are the primary home mortgage loan product. Out of all home mortgages, home purchase loans account for 1,247 or 86% of all HMDA activity in the AA.

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

NB's LTD ratio is considered satisfactory given its asset size, financial condition, and lending opportunities in the AA. Although the average LTD since the previous CRA examination increased to 68% from 62%, the actual ratio is declining. As of December 31, 2005, the LTD ratio was 61%, below the 73% reported at the prior examination.

This decline in the LTD is due both to increased competition in NB's market and the strategic decision to sell home loans in the secondary market through its mortgage-banking department. If the \$73 million in mortgage loans sold in 2005 had been retained, the LTD would increase substantially to 81%. The mortgage-banking department originates a large volume of conventional, FHA, and VA mortgage loans. Many of these loans are sold to permanent investors shortly after funding.

Such performance is consistent and reasonable given the competitive nature of the AA and available loan demand. Also, the LTD ratio is reasonable when compared with the other banks headquartered in the AA. During the period from January 2001 to December 2005, the competing banks had LTD ratios ranging from 41% to 77%. It should be noted that Extraco Banks and First State Bank of Central Texas have a wider branch banking system, which provided these institutions access to various markets with greater lending opportunities. The asset size and LTD ratio for NB and its competing banks during this period are listed on the table on the following page.

<b>INSTITUTION</b>	<b>ASSETS (12/31/2005)</b>	<b>Average LTD Ratio</b>
First Texas Bank, Lampasas	101,545	40.9
First National Bank Texas, Killeen	617,638	46.1
Extraco Banks NA, Temple	951,287	76.7
First State Bank of Central Texas	724,429	76.9
<b>The National - Banks of Central Texas</b>	<b>403,362</b>	<b>68.4</b>

*Source: Institution Consolidated Reports of Condition*

### **Lending in Assessment Area**

NB's lending in their AA exceeds the standard for satisfactory performance. A substantial majority of NB's small business loans were originated within the bank's AA as shown in the following table:

<b>TOTAL LOANS REVIEWED</b>								
<b>LOAN TYPE</b>	<b>IN ASSESSMENT AREA</b>				<b>OUT OF ASSESSMENT AREA</b>			
	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Residential	1,517	96.3	149,086	95.8	58	3.7	6,536	4.2
Commercial	37	92.5	1,275	67.8	3	7.5	605	32.2
<b>Total Reviewed</b>	<b>1,554</b>	<b>96.2</b>	<b>150,361</b>	<b>95.5</b>	<b>61</b>	<b>3.8</b>	<b>7,141</b>	<b>4.5</b>

*Source: Loan Sample (Data reported under HMDA and Small Business credit files)*

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

NB's loan portfolio reflects a good distribution of residential loans among families of various income levels and a good dispersion to businesses of different sizes.

NB's penetration of home mortgage loans to families of varying income levels meets the standard for satisfactory performance. NB's performance in lending to low-income families of 1.9% is well below the 17.0 % of low-income families living in the AA. This performance is mitigated somewhat by the fact that it is difficult for low-income families to qualify for mortgage loans at the median housing value. NB's performance in lending to moderate-income families exceeds the percentage of moderate-income families in the AA. Details of our analysis can be found in the following table.

<b>BORROWER DISTRIBUTION OF LOANS FOR RESIDENTIAL REAL ESTATE</b>								
<b>Killeen-Temple-Fort Hood AA</b>								
Borrower Income Level	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
% of AA Families	17.0		20.0		23.8		39.2	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Home Purchase</b>	<b>1.9</b>	<b>0.8</b>	<b>24.5</b>	<b>18.8</b>	<b>36.5</b>	<b>36.0</b>	<b>37.1</b>	<b>44.4</b>

Source: Data reported under 2004 and 2005 HMDA

The income distribution of loans originated to businesses with revenues of less than \$1 million during our evaluation period was excellent. The percentage of businesses within the AA that generated revenues less than \$1 million was 94.9% based on data provided by Dun and Bradstreet. NB originated 90.0% of total small business loans to businesses with revenues less than \$1 million. While the bank's loan total was less than the characteristics of the AA, the bank's performance is outstanding relative to the size of the bank and the level of competition within the AA.

<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES</b>		
<b>Killeen-Temple-Fort Hood AA</b>		
Business Revenues or Sales	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94.9%	5.1%
% of Bank Loans in AA #	90.0	10.0
% of Bank Loans in AA \$	89.6	10.4

Source: Loan sample of business loans originated in 2004 and 2005



## Geographic Distribution of Loans

NB's geographic loan distribution is reasonable and meets the standard for satisfactory performance.

The bank's penetration of mortgage loans is adequate given the demographics of the AA. The level of home purchase lending in low-income geographies is near to the level of owner-occupied housing in low-income geographies. NB's lending in moderate-income CTs is below the AA demographics. In contrast, NB's performance in financing multi-family housing in low- and moderate-income geographies is strong. The financing of affordable housing addresses a pressing need that was identified by a community contact. For further details, refer to the **COMMUNITY DEVELOPMENT TEST** section of this Performance Evaluation.

GEOGRAPHIC DISTRIBUTION OF LOANS FOR RESIDENTIAL REAL ESTATE Killeen-Temple-Fort Hood AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0.2		8.7		61.3		29.8	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	0.3	0.3	3.6	5.1	81.7	77.8	14.4	16.8

Source: Data reported under 2004 and 2005 HMDA

GEOGRAPHIC DISTRIBUTION OF LOANS MULTI-FAMILY HOUSING Killeen-Temple-Fort Hood AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	3.3		34.6		47.2		14.9	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Multi-Family Housing	14.3	3.9	42.9	75.5	42.9	20.6	0	0

Source: Data reported under 2004 and 2005 HMDA

The geographic distribution of loans to small businesses is adequate. NB did not originate any small business loans in the one low-income CT in the AA. NB's lending to small businesses in moderate-income CTs is below the percentage of small businesses in those CTs.

GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES Killen-Temple-Fort Hood AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	3.5%		19.0%		53.5%		24.0%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Totals</b>	0	0	12.5	9.3	77.5	81.8	10.0	8.9

Source: Loan sample of business loans originated in 2004 and 2005; Dunn & Bradstreet

## **Responses to Complaints**

There have been no consumer complaints relating to the bank's CRA performance during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The bank's performance under the Community Development Test is rated "Satisfactory." Based on a full-scope review, the bank's performance in the Killeen-Temple-Fort Hood AA is satisfactory.

## **Community Development Loans**

Qualified community development (CD) loans are loans that meet the definition of community development as defined in the CRA regulation. Opportunities for CD lending are high and primarily in affordable housing, an identified need in the Killeen-Temple-Fort Hood AA. The level of CD lending is outstanding. The bank has demonstrated excellent responsiveness to the identified need of affordable housing by making several multi-family loans for projects, which rent at the median housing rates for LMI families. Since our last evaluation, the bank has made 17 loans for \$4.3 million where more than half of each project is rented for at least the median rental rate for moderate-income families. Of the total of 399 units, 291 or 73% are at the median rental rate for low-income families, and 104 or 26% are at the median rental rate for moderate-income families. In loan dollars, \$3.1 million or 73% funded low-income units and \$1.1 million or 26% funded moderate-income units. The bank has also excelled in making qualifying CD loans for the construction of affordable single-family homes. Since the last evaluation, the bank has made 36 loans that sold at prices that would be affordable to LMI families. Of the total of 36 loans, 12 or 33% were sold at prices considered affordable by low-income families and the rest of the homes were affordable by moderate-income families. Two multi-family loans for \$233 thousand originated in the one low-income tract in the AA, six for \$928 thousand were made in moderate-income tracts, and nine for \$3.1 million were made in middle-income geographies. No qualifying CD loans for small business were noted.

## **Community Development Investments**

Qualified investments are investments, deposits, membership shares, or grants that have as their primary purpose community development, as defined in the CRA regulation. The level of CD investments is adequate in view of the limited opportunities for CD investments. In the AA, NB made ten qualified donations, totaling \$2 thousand, to organizations that provide community services or affordable housing. The most significant was \$500 to the Killeen Boys and Girls Club whose clients are exclusively children from low-income families. Outside of the AA but within the state, the bank funded an additional \$240 thousand on its \$500 thousand commitment to the Independent Bankers Capital Fund, a statewide Small Business Investment Corporation (SBIC). Total investment in this SBIC is \$306 thousand.

### **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. Opportunities for CD services are considered moderate and primarily in the areas of affordable housing and community services. The level of CD services is adequate. Bank officers have provided 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.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of any discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.