



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

March 31, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

National Bank
Charter Number 4097

905 Main Gatesville, TX 76528

Office of the Comptroller of the Currency

10001 Reunion Place Suite 250 San Antonio, TX 78216-4165

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.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

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

- A substantial majority of NB's loans were originated within the assessment area (AA).
- The loan-to-deposit ratio is reasonable and averaged 61 percent during the evaluation period.
- NB's distribution of loans to businesses with gross revenues of less than \$1 million reflects excellent penetration.
- The distribution of loans in low- and moderate-income geographies reflects reasonable dispersion and meets the definition of satisfactory performance.
- NB's overall community development (CD) performance is satisfactory and demonstrates an adequate responsiveness to the CD needs of its AAs.

Scope of Examination

We evaluated NB's Community Reinvestment Act (CRA) performance using Intermediate Small Bank (ISB) examination procedures, which include both a Lending and Community Development Test. The Lending Test evaluates the bank's record of meeting the credit needs of its AA through lending activities. The Community Development Test evaluates the bank's responsiveness to the identified needs in its AA through lending, qualified investments, and services.

This review focused on the bank's primary loan products, which were determined to be commercial and residential real estate loans. The review included all real estate loans submitted pursuant to the Home Mortgage Disclosure Act of 1975 (HMDA) in the years 2012-2014. The bank performs a strong audit of HMDA submissions with 100 percent of the submissions being audited for errors with corrections and recheck prior to submission. We found the audit process and supporting workpapers to be reliable. A random sample of commercial loans for the years of 2012-2014 was also reviewed.

The evaluation period for the Community Development Test covers the period since the prior CRA evaluation dated October 3, 2011, to the start date of this evaluation, April 6, 2015.

Community Development loans, investments, and services submitted by management were verified to ensure they met the regulatory definition for community development.

The bank has delineated two assessment areas (AAs) consisting of the Killeen-Temple-Fort Hood MSA, and a portion of Waco MSA. We performed a full scope review of activities in the Killeen-Temple-Fort Hood MSA (Killeen AA) since that is where the majority of the market share of deposits and loans are made, and a limited scope review of activities in the Waco MSA (McLennan County AA).

Description of Institution

NB is an intrastate bank headquartered in Gatesville, Texas, which is approximately 40 miles west of Waco, Texas. The bank's total asset size is \$576 million as of as of December 31, 2014. The bank is 100% owned by National United Bancshares, Inc., a single-bank holding company. There have been no significant changes to NB's corporate structure, including merger or acquisition activities, since the last CRA evaluation in October 2011.

With a total of eight branches, the bank's six branch locations in the Killeen-Temple-Fort Hood metropolitan statistical area (MSA) include four full service locations in Gatesville, Lampasas, Killeen, and Copperas Cove, and two limited service branches in Clear Creek and Kempner. There are two full service branch locations in the Waco MSA (McLennan County), one in Waco and one in Hewitt.

Each location offers standard banking services, which includes a drive-through service lane. All of the branches operate Monday through Friday with limited hours on Saturday. Automated teller machines (ATMs) are available at all branch locations. All of the branches are located within their stated AAs and do not arbitrarily exclude Low-to Moderate Income (LMI) tracts.

There are no legal, financial, or other factors hindering the bank's ability to help meet the credit needs in its AA. The bank was rated "Satisfactory" as an intermediate small bank for the previous CRA examination dated October 3, 2011.

As of December 31 2014, loans totaled \$354 million, which is approximately 61% of NB's total assets. Commercial lending is the bank's primary focus with residential real estate following. The bank ended their mortgage lending division in Killeen in January 2014, with all residential mortgage products being brought in house starting in June 2014. Despite a decline in the number and dollar volume of loans generated due to the closure, there are no longer residential real estate loans held for sale in the portfolio. Consumer and agriculture loans continue to comprise a smaller portion of the loan portfolio.

A summary of the loan portfolio is as follows:

Table 1		
Loan Portfolio Summary by Loan Product		
December 31, 2014		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial (Including R/E)	\$244,248	68.92%
Residential Real Estate	\$44,939	12.68%
Consumer	\$37,695	10.64%
Agricultural/Farm	\$26,916	7.59%
Other Loans	\$616	00.17%
Total	\$354,414	100.0%

The bank offers a full range of deposit and loan products and services. Loan products include a standard selection of commercial, residential, and consumer loans.

Personal account options include Premier Banclub, Gold Plus, Free spirit, and Personal MMA. All personal accounts require a minimum balance of \$1 dollar with the exception of the Personal MMA, which requires \$1 thousand dollar minimum balance. The bank also offers Small Business 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, residential real estate, consumer, and agricultural lending.

The banks identified assessment areas are highly competitive. The primary competition consists of other state and national financial institutions, credit unions, and branch facilities of large regional and national institutions. Much of the competition is highly visible and offers very competitive rates on loans and deposits.

Description of Assessment Area(s)

NB has designated two AAs which will be evaluated during this review. The first AA consists of Lampasas, Coryell, and portions of Bell County which includes the Killeen-Temple-Fort Hood MSA (referred to as the Killeen AA). With a deposit market share of 10.86 percent and a ranking of 4th out of 22 institutions, we will perform a full scope review of the Killeen AA.

The second AA is referred to as the McLennan County AA, which includes the Waco MSA. The 2014 Office of Management and Budget (OMB) Metropolitan Area (MA) geographic boundary revisions became effective January 1, 2014 and are referred to as

the 2014 OMB Changes. The changes included the addition of Fall County to the Waco MSA. The bank did not add Fall County to their AA, so per OCC guidance, we will combine 2012 through 2015 data for the Waco MSA. With only 1.24 percent of the Waco MSA market share, we will perform a limited scope review of the McLennan County AA.

Combined, the two AAs cover 140 census tracts ranging from low- to upper-income. The majority of the bank's deposits and lending activities are completed in the Killeen AA; therefore, more weight was given to this AA during the evaluation.

Killeen AA

The Killeen AA is comprised of 89 census tracts: 3 low-income, 20 moderate-income, 46 middle-income, and 16 upper-income CTs. Four of the CTs are listed as NA with income level unknown. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies. Specific demographic and economic data for this area is listed below:

Demographic and Economic Characteristics of Assessment Area	
Population	
Total Population	405,300
Number of Families	94,204
Number of Households	129,226
Geographies	
Number of Census Tracts	89
% Low-Income Census Tracts	3.37%
% Moderate-Income Census Tracts	22.47%
% Middle-Income Census Tracts	51.69%
% Upper-Income Census Tracts	17.98%
% Unknown Income Census Tracts	4.49%
Median Family Income (MFI)	
2010 MFI for AA	\$56,144
2012 HUD-Adjusted MFI	\$54,700
2013 HUD-Adjusted MFI	\$50,000
2014 HUD-Adjusted MFI	\$50,689
Economic Indicators	
Unemployment Rate	4.14%
% of Households on Social Security	21.29%
% of Households Below Poverty Level	12.30%
% of Households on Retirement	21.14%

The Killeen AA population is approximately 405 thousand. There are 153,337 housing units in the AA, with 50 percent owner-occupied, 34 percent renter-occupied and 16 percent vacant. The Fort Hood Army Post is the largest employer, with civilian

personnel in support of the military operations, education and health care providers rounding out the top employers in the AA.

Community contact(s) conducted through recent prior interviews disclose that the primary credit needs of the AA are supported by fostering the development and success of small businesses. The contacts also discussed potential projects using sales tax dollars for the purpose of industrial development and the development of more affordable housing.

McLennan County AA

The McLennan County AA is comprised of 51 census tracts: 7 low-income, 10 moderate-income, 16 middle-income, and 16 upper-income CTs. The AA meets the requirements of the CRA regulation and does not arbitrarily exclude low- or moderate-income geographies. Specific demographic and economic data for this area is listed below:

Demographic and Economic Characteristics of Assessment Area	
Population	
Total Population	234,906
Number of Families	55,570
Number of Households	82,998
Geographies	
Number of Census Tracts	51
% Low-Income Census Tracts	13.73%
% Moderate-Income Census Tracts	19.61%
% Middle-Income Census Tracts	31.37%
% Upper-Income Census Tracts	31.37%
% Unknown Income Census Tracts	3.92%
Median Family Income (MFI)	
2010 MFI for AA	\$53,712
2012 HUD-Adjusted MFI	\$54,700
2013 HUD-Adjusted MFI	\$50,000
2014 HUD-Adjusted MFI	\$50,689
Economic Indicators	
Unemployment Rate	4.45%
% of Households on Social Security	28.08%
% of Households Below Poverty Level	19.74%
% of Households on Retirement	16.30%

Source: 2010 US Census Data.

McLennan County population is approximately 235 thousand and encompasses 1,060 square miles. There are 93,656 housing units in the AA, with 53 percent owner-occupied, 35 percent renter-occupied and 11 percent vacant. Educational institutions and health care providers are top employers in the Waco area, along with distributors and manufacturers. The main employers in the AA include Providence Health Centers, Baylor University, Texas State Technical College, Waco ISD, City of Waco, and Baylor

Scott & White Health System. Higher education and the health care continue to be the main industries for the area.

Conclusions with Respect to Performance Tests

LENDING TEST

NB's Lending Test performance in meeting the credit needs of its AA is **Satisfactory**. Our conclusion is based on a reasonable loan-to-deposit ratio, outstanding lending performance within the bank's AA, a reasonable borrower distribution of loans within the banks AAs, and an overall reasonable geographic distribution of loans within the AA.

Loan-to-Deposit Ratio

The banks LTD ratio is reasonable given the bank's size, location, local competition, and the credit needs of the AA. This determination is based on the quarterly average LTD ratio of 60.76 percent from September 30, 2011 through December 30, 2014. During this evaluation period, other institution's LTD ratio ranged from a low of 28.06 percent to a high of 80.78 percent.

Management considers the banks shown in the following table to be similarly situated institutions (SSIs). All are community banks less than \$1 billion in assets that actively offer similar loan products and have branch locations in the AA.

The quarterly average LTD ratio for each SSI is listed in the following table. Please note that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Financial Institutions	Total Assets \$ (000's) (As of 12/31/2014)	Average Loan- to-Deposit Ratio
National Bank	\$575,784	60.76%
Central National Bank	\$729,763	80.78%
First National Bank, Texas	\$1,306,281	28.06%
Extraco Banks, NA	\$1,308,045	73.37%
First National Bank of Central TX	\$732,244	77.81%

Source: Institution Reports of Condition from September 30, 2011 to December 31, 2014.

The level of the bank's average LTD ratio reflects a reasonable lending performance consistent with the economic conditions within the AA.

Lending in Assessment Area

NB originates a substantial majority of its loans within the Killeen and McLennan County

AA. The bank is doing an outstanding job of allocating their lending within the AA. To calculate the ratio of loans originated within the AA, we reviewed a random sample of 20 commercial loans and all available HMDA residential real estate originated from January 1, 2012 through December 31, 2014. All of the commercial loans and a substantial majority of the residential real estate loans were found to be inside the bank’s AA. The bank originated 92 percent by number of loans and \$2.6 million, or 99.32 percent of the total dollar amount of loans inside the AA. The following table illustrates the results of our analysis.

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
	Home Purchase	560	90.91	56	9.09	616	76,199	84.62	13,846	15.38
Home Improvement	17	85.00	3	15.00	20	868	85.60	146	14.40	1,014
Refinancing	213	93.42	15	6.58	228	31,033	88.52	4,026	11.48	35,059
Commercial	40	100.00	0	0.00	40	2,520,152	100.00	0	0.00	2,520,152
Totals	830	91.81	74	8.19	904	2,628,252	99.32	18,018	0.68	2,646,270

Source: HMDA Data; Bank File Data

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

Killeen AA (Full Scope)

Residential Real Estate

The distribution of residential real estate loans reflects an overall **reasonable** penetration among borrowers of different income levels. Loans originated to LMI borrowers are at or near the demographic data comparator. The sample showed 6 percent of loans reviewed were to low-income borrowers and 21 percent were to moderate-income borrowers. However, demographic data shows 3.37 percent and 22.47 percent of families are low- or moderate-income, respectively. The less-than-satisfactory penetration is a result of low loan demand and limited lending opportunities within the AA.

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	19.41	5.66	19.04	20.59	21.70	28.96	39.84	39.59
Home Improvement	19.41	0.00	19.04	16.67	21.70	0.00	39.84	66.67
Refinancing	19.41	2.56	19.04	12.18	21.70	12.18	39.84	50.64

Commercial Loans

The distribution of loans to businesses reflects **excellent** penetration among small businesses and is considered outstanding. Based on our sample, 90 percent of the number of loans and 80 percent of the dollar amount of the loans are made to businesses with revenues below \$1 million. Demographic data showed that about 74 percent of businesses in the AA had revenues below \$1 million.

The following table details the bank’s performance as compared to the percentage of businesses below the \$1 million threshold:

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	73.59	2.42	23.99	100%
% of Bank Loans in AA by #	90.00	10.00	0.00	100%
% of Bank Loans in AA by \$	79.84	20.16	0.00	100%

McLennan County AA (Limited Scope)

Based on our limited-scope review, the bank’s lending performance for borrowers of different income levels and businesses of different sizes in the McLennan County AA is not inconsistent with the bank’s overall performance.

To perform our analysis, we reviewed the available HMDA data for residential real estate loans, and 20 commercial loans in the AA. The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels. The distribution of loans to businesses reflects excellent penetration among businesses of different sizes.

Geographic Distribution of Loans

Killeen AA (Full Scope)

Residential Real Estate

The geographic distribution of loans to LMI geographies reflects **reasonable** dispersion. The sample showed the distribution of home purchase loans and home improvement was below comparative demographics. However, the bank exceeds the comparators for refinance loans to both low- to moderate-income families. Additionally, the bank’s performance to moderate-income families in all loan categories is at or near the comparators. Overall, the sample shows reasonable dispersion within LMI tracts.

The following table shows the distribution of residential real estate loan products among borrowers of different income levels in the Killeen AA:

Table 3 - Geographic Distribution of Residential Real Estate Loans in AA

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchasing	1.20	0.23	9.04	8.60	63.44	58.82	26.32	13.35
Home Improvement	1.20	0.00	9.04	8.33	63.44	50.00	26.32	0.00
Refinancing	1.20	1.28	9.04	12.82	63.44	59.62	26.32	16.67

Commercial Loans

Geographic distribution of loans to businesses in the AA reflects *poor* dispersion. The performance does not meet standards for lending to businesses located in LMI CTs. Based on our sample, zero percent of loans to businesses were made in low-income CTs. However, demographic data showed only 1.44 percent of businesses were located in low-income CTs. Likewise, demographic data showed 48.36 percent of businesses are located in a moderate-income level CT, and the sample showed 15 percent of loans were to businesses located in a moderate-income CT. The majority of loans are made to middle-income level tracts where 85 percent of the loans are made and only 54.47 percent of businesses are located in those tracts. Very strong competition in the AA affects the bank’s lending performance in this market.

The following table summarizes the distribution of business loans by CT income level:

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans
Businesses	1.44	0.00	48.36	15.00	54.47	85.00	24.80	0.00

McLennan County AA (Limited Scope)

The geographic distribution of loans to LMI geographies in the McLennan County AA is reasonable and meets or exceeds some comparators in the residential real estate loan categories. For the Home Purchase and Refinancing, the bank exceeds the demographic comparators in the moderate-income level tracts, and the performance also exceeds the comparator for the Home Purchase for the low-income tracts. For business loans, the bank exceeds the comparator for moderate-level income tracts with 28 percent of loans made and 20 percent of businesses available within those tracts. Overall, the sample shows reasonable dispersion within LMI tracts.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

NB's overall performance under the community development test is **Satisfactory**. The volume and responsiveness of the bank's community development lending and services reflects excellent responsiveness to the needs of the AAs. The bank's level of qualified investments reflects poor responsiveness and needs to improve.

Number and Amount of Community Development Loans

Killeen AA (Full Scope)

The bank demonstrates **excellent** responsiveness to the needs of the AA through qualified community development (CD) loans. We identified 63 loans originated by NB that qualified as CD loans totaling approximately \$5.2 million. The loans meet the definition of community development as defined in the CRA regulation and do not include loans that were given consideration under the Lending Test.

The bank continues to take advantage of opportunities for community development lending through affordable housing construction loans and low-to moderate-income rental programs geared towards LMI families. The construction loans and rental programs are all located in moderate-income census tracts within the AA.

McLennan County AA (Limited Scope)

The bank has **adequate** responsiveness to the needs of the AA through qualified CD loans. Since the previous evaluation, the bank has added 6 qualified loans totaling \$248 thousand. This reflects an improvement from the previous evaluation where no loans were reported for the AA. Per bank management, lending performance is expected to increase in the AA due to the addition of lending staff in the Waco and Hewitt branches. The subject qualified loans are also for construction and rental programs offered to LMI families.

Number and Amount of Qualified Investments

The bank demonstrates **poor** responsiveness to the needs of both of the AAs through qualified community development investments. There were no qualified investments recorded during the evaluation period for either AA.

Extent to Which the Bank Provides Community Development Services

Killeen AA (Full Scope)

NB's CD services reflect **adequate** responsiveness to the needs and opportunities in the AA. Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AAs. Business hours and services are convenient and are accessible to all segments of the AA.

The bank's main office is located at 905 Main Street in Gatesville. In addition to its main office, NB operates five other branches in the Killeen AA. This includes four full service locations in Gatesville, Lampasas, Killeen, and Copperas Cove, and two limited service branches in Clear Creek and Kempner.

Each location offers standard banking services, which includes a drive-through service lane. All of the branches operate Monday through Friday with limited hours on Saturday. Automated teller machines (ATMs) are available at all branch locations. All of the branches are located within their stated AAs and do not arbitrarily exclude Low-to Moderate Income (LMI) tracts.

McLennan County AA (Limited Scope)

NB's CD services reflect **adequate** responsiveness to the needs and opportunities in the AA. Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AAs. Business hours and services are convenient and are accessible to all segments of the AA.

There are two full service branch locations in the Waco MSA (McLennan County), one in Waco and one in Hewitt.

Each location offers standard banking services, which includes a drive-through service lane. All of the branches operate Monday through Friday with limited hours on Saturday. Automated teller machines (ATMs) are available at all branch locations. All of the branches are located within their stated AAs and do not arbitrarily exclude Low-to Moderate Income (LMI) tracts

Responsiveness to Community Development Needs

Killeen AA (Full Scope)

NB provides an **excellent** responsiveness to the needs of its community in the AA. The bank participates in several programs geared towards the development and assistance of LMI families in the AA. Since the last evaluation, the bank has donated approximately \$15 thousand dollars to support LMI families in the AA.

The bank provides assistance to the Cove House and to the Cove House Clinic. Employees also assist with food drives, clothing drives, and other projects that may be needed by the programs to support families in need.

The bank also provides support to the YMCA Festival of Trees, which is an annual event to raise funds to assist LMI families and soldiers in the Fort Hood area.

The bank participates in the Teach your Children to Save Program where bank employees went to local area schools and provided classes and information regarding

bank accounts and how to open a savings account. The bank provided classes to 1,205 students during the presentations.

The bank participates as a Texas IOLTA Prime Partner Bank for providing legal access to LMI families.

The Gatesville and Copperas Cove branches participate in the Rainbow Room and have employees that serve on the Child Advocacy Board. The Rainbow Room provides care for children from low-income families that have been removed from their homes by CPS for abuse and neglect.

The Killeen branch participates in fundraisers to support the Caring Hearts. Caring Hearts provides free medical care and pharmaceutical needs to patients that qualify as low-income.

The bank also offers a Credit Builder (CB) loan program for LMI families available in both of the AAs. The CB loan program is for home loan applicants with a zero FICO score. The bank offers discounted rates and terms for applicants that meet the criteria of the program. Since the program was implemented in 2012, the bank has made 24 loans totaling 1 million.

McLennan County AA (Limited Scope)

NB provides an **adequate** responsiveness to the needs of its community in the limited scope AA. The bank participates in several programs geared towards the development and assistance of LMI families in the AA. Since the last evaluation, the bank has made donations in the amount of approximately \$3 thousand dollars to support LMI families in the AA.

The bank provides assistance to the Caritas of Waco, Pack of Hope, Sally's House, and Operations Homefront of Texas/Wounded Warriors, all of which are designed to provide food and temporary living arrangements for LMI families in the AA. Bank employees also assist with food drives, clothing drives, and other projects that may be needed by the programs to support families in need.

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.