



PUBLIC DISCLOSURE

January 21, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

National Bank & Trust
Charter Number 3906

145 West Colorado Street
La Grange, TX 78945

Office of the Comptroller of the Currency

1301 McKinney Street
Suite 1410
Houston, TX 77010-3031

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 COMMUNITY REINVESTMENT ACT RATING:
This institution is rated "Satisfactory".**

National Bank & Trust has a "**Satisfactory**" record of meeting community credit needs in its assessment area. The following factors support this rating:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the credit needs of the assessment area (AA).
- A substantial majority of our sample of loans were originated within the designated AA, including 87 percent of the number and 81 percent of the dollar volume of loans.
- The borrower distribution of loans reflects excellent penetration among low- and moderate-income borrowers for consumer products.
- The distribution of small business and farm loans reflects excellent penetration to businesses and farms of different sizes.
- The bank actively participates in Community Development activities in the AA.

SCOPE OF EVALUTATION

National Bank and Trust (NB&T) was evaluated under the Small Bank Evaluation Procedures, which included a Lending Test. The Lending Test evaluates the bank's record of meeting the credit needs of the AA through lending activities. The Lending Test evaluated the bank's lending performance from January 1, 2012 through December 31, 2013. In addition, the bank submitted Community Development (CD) activities for consideration.

As of December 31, 2013, the loan portfolio represents 22 percent of total bank assets. The bank offers residential real estate, consumer, business, and farm loans. We identified residential loans as the primary loan product of the bank by dollar amount. As of December 31, 2013, the distribution of the loan portfolio is as follows: 1-4 residential real estate (48%), consumer loans (18%), commercial and commercial real estate loans (17%), and farmland loans (11%). We selected a statistically valid sample of 50 residential real estate loans, 30 consumer loans, and a combined sample of 20 small business/small farm loans.

DESCRIPTION OF INSTITUTION

NB&T is a \$219 million independent community bank located in downtown La Grange, Texas. La Grange is located approximately 100 miles east of San Antonio, 100 miles west of Houston, and 65 miles southeast of Austin. La Grange is the county seat of Fayette County, Texas and is considered a historical city. NB&T is a wholly owned subsidiary of First La Grange Bancshares, Inc.

The bank serves its local community with one main office and a detached motor bank located one block east of the main office location. NB&T provides lobby services Monday through Friday, and drive-through services Monday through Saturday, during reasonable hours. An Automated Teller Machine (ATM) is located at the motor location, and night drop boxes are located at both locations. In addition, internet and telephone banking services are offered 24-hours a day.

NB&T is ranked second in deposit market share with 19 percent of the Fayette County deposit base. Fayetteville State Bank is ranked first in deposit market share with 30 percent share. Other deposit competitors include Round Top State Bank and Prosperity State Bank. NB&T offers a full range of credit products within its AA, with a primary emphasis on residential real estate.

At the prior Community Reinvestment Act (CRA) Evaluation dated August 6, 2007, the bank received a "Satisfactory" rating. There are no legal or financial factors impeding the bank's ability to help meet the credit needs of its AA.

Please refer to NB&T's CRA Public File for additional information.

DESCRIPTION OF ASSESSMENT AREA(S)

NB&T has designated all of Fayette County as its AA. The AA, which is not included in a metropolitan statistical area, includes the cities of Schulenberg, Fayetteville, Round Top, Carmine, and La Grange. Fayette County does not have any census tracts that are designated as low- or moderate-income census tracts. The AA consists of seven tracts, three middle income (43%) and four upper income tracts (57%), based on the 2010 U.S. Census data. NB&T's main banking office and only branch is located in a middle-income tract. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographic areas.

The population of the AA is 24,554 per the 2010 U.S. Census. Retired persons make up a significant amount of the area's population. Thirty-six percent of households are living on social security with 17 percent of households living on retirement income.

There are 13,397 housing units in total in the AA per the 2010 U.S. Census. Of the total housing units, 7,896 are owner occupied units with 48 percent located in middle-income tracts and 52 percent located in upper-income tracts. The average median housing value of a single-family residence is \$133,782.

According to the 2010 U.S. Census, the weighted average of median family income for the AA is \$55,633. The HUD updated median family income as of 2013 was \$50,500.

Community Contact

In assessing the bank’s performance, one CRA-related community contact was made with a representative of a local economic and development organization in the community. The contact identified consumer, agriculture, and project loans as the primary credit needs in Fayette County. This contact indicated that banks in the La Grange area were meeting the financial needs of the community. The contact was favorable in their comments about the performance of NB&T and its participation in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

NB&T's average loan-to-deposit (LTD) ratio is reasonable. The quarterly average LTD ratio is 29.37 percent since the last evaluation dated August 6, 2007. The low LTD ratio is attributable to deposit growth, which continues to outpace loan growth. The bank has experienced deposit growth of 49.84 percent over the past four years and a decrease in loan demand due to current economic conditions. NB&T’s deposits include \$36 million in local municipal public funds, causing additional decline in the LTD ratio.

As depicted in the table below, the LTD ratio indicates that NB&T extends a reasonable amount of credit given its size, capacity, credit needs, and of which, is representative of the demographics of its assessment area. We compared the bank with two similarly situated institutions in the AA. NB&T’s LTD ratio is consistent with peer institutions as reflected in the following table.

Institution	Assets December 2013 (000’s)	Average LTD Ratio
Fayetteville Bank	\$341,432	30.91%
People’s State Bank of Hallettsville	\$230,287	23.43%
National Bank & Trust	\$210,694	29.37%

Lending in Assessment Area

A substantial majority of the bank’s lending activity is in the AA and the overall level of lending in the AA meets the standards for satisfactory performance. We reviewed a sample of 100 total loans including residential, consumer, and small business/farm loans. As noted in the following table, loans originated in the AA approximate 87 percent of the number of loans and 81 percent of the dollar amount of loans.

Lending in Fayette County AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	39	78.00	11	22.00	50	4,984	78.65	1,353	21.35	6,337
Consumer	28	93.33	2	6.67	30	427	92.55	34	7.45	461
Business/Farm	20	100	0	0	20	344	10%	0	0	344
Totals	87	87.00	13	13.00	100	\$5,755	80.58	\$1,387	19.42	\$7,142

Source: Loan Sample.

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

NB&T meets the overall standards for satisfactory performance with reasonable distribution of loans to borrowers of different incomes, and businesses and farms of different sizes. We selected a sample of loans in the AA to evaluate performance for residential loans, consumer loans and a combined sample of small business and small farm loans.

Residential Real Estate Lending:

Our analysis of residential lending activity reflects **reasonable** penetration of loans originated to low- and moderate-income borrowers. Our analysis of residential lending activity reflected percentages lower than those reported in the demographic data for low-income families. Bank management stated that the availability of affordable housing for low-income borrowers in the AA is limited. Originating loans for residential homes to low-income borrowers may be challenging considering the higher home costs in the AA.

Households below the poverty level represent 11 percent of total households in the AA. The income level of low-income families, based on the 2013 HUD-adjusted median family income, is \$25,250 or less. This level of income may inhibit potential borrowers from qualifying for residential loans since the 2010 median housing value is \$133,782. In addition, there is a significant population of retired individuals in the AA and most residential real estate loans originated by the bank are for new retirement homes. The bank's performance is shown in the following table:

Borrower Distribution of Residential Real Estate Loans in Fayette AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	14.40	5.26	16.78	5.26	19.90	15.79	48.92	73.68

Source: Loan Sample; U.S. Census data.

Consumer Lending:

Consumer lending activity reflects **excellent** penetration to borrowers with low- and moderate-income levels. The bank’s level of consumer lending exceeds the demographics for both low- and moderate-income borrowers. NB&T made 25 percent and 29 percent of the loans sampled to low- and moderate-income borrowers, respectively. Low-income households represent 18 percent of the total households and moderate-income households represent another 18 percent. The following table shows a comparison of our loan sample to demographic data in the AA.

Borrower Distribution of Consumer Loans in Fayette AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	17.98	25.00	18.19	28.57	16.41	35.71	47.42	10.71

Source: Loan Sample; U.S. Census data.

Small Business and Farm:

Overall, the distribution of small business and farm loans reflects **excellent** penetration to business and farms of different sizes. As of December 31, 2013, approximately 28 percent of NB&T’s loan portfolio is comprised of business and farm loans. Of the business and farm (agriculture) loans we sampled, approximately 90 percent were to small businesses and farms.

Small businesses are defined as businesses with gross revenues of \$1 million or less. Small farms are defined as having gross annual revenues of \$500 thousand or less. Of the data collected, 21.86 percent of the businesses and farms did not report revenue data. The following table displays NB&T’s lending to businesses and farms of different sizes based on the sample of 2012-2013 loan originations.

Borrower Distribution of Loans to small businesses and farms in Fayette AA				
Business/Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	74.94	3.20	21.86	100%
% of Bank Loans in AA by #	90.00	10.00	0.00	100%
% of Bank Loans in AA by \$	84.29	15.71	0.00	100%

Source: Loan Sample; Business Geo-Demographic data.

Geographic Distribution of Loans

The bank's AA does not include any low- or moderate-income areas. It does not include any distressed areas. We investigated surrounding areas, and the bank does not have a presence in any surrounding areas containing low- or moderate-income tracts. Therefore, an analysis of geographic distribution would not be meaningful and no weight was given to this performance factor when deriving the final CRA rating.

Community Development Services

NB&T has a satisfactory record of meeting the needs of the community through Community Development activities. The more noteworthy of these are listed below:

- NB&T has extended a Line of Credit to a local clinic that primarily serves low- and moderate-income individuals.
- NB&T actively participates in a "First Time Homebuyer Program", offering first-time homebuyers discounted rates, low closing costs, lender credits, and home ownership counseling.
- NB&T employees are actively involved in financial education training. NB&T employees host bank tours, which include teaching local students about banking, careers, checking/savings accounts, importance of reconciliation, identity theft and fraud.

Responses to Complaints

The bank did not have any CRA-related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance.

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