



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 09, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First-Lockhart National Bank
Charter Number 13934**

**111 South Main Street
Lockhart, TX 78644**

**Comptroller of the Currency
ADC - Austin
8310 Capital of Texas Highway North, Suite 250
Austin, TX 78731**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of First-Lockhart National Bank (FLNB) Lockhart, Texas, as prepared by the Comptroller of the Currency (OCC), the institution's supervisory agency, as of September 9, 2002. The OCC rates the performance of institution's compliance with the CRA consistent with the provisions set forth in Appendix A of 12 CFR Part 25.

INSTITUTION'S CRA RATING: This institution is rated "Outstanding."

- FLNB's lending performance is outstanding given its size, financial condition, and the known credit needs in its assessment area (AA).
- The bank's loan-to-deposit (LTD) ratio is now considered strong and has averaged 64% for this evaluation period. FLNB's LTD ratio has improved significantly over the past four years and is now 76% as of June 30, 2002. FLNB continues to provide a necessary service to residents of its AA by funding the development of much-needed residential areas. Please refer to the **CONCLUSIONS ABOUT PERFORMANCE CRITERIA** section of this Performance Evaluation (PE) for specific details.
- A substantial majority of FLNB's loans are within its AA.
- Given the demographic characteristics of its AA, FLNB has exceeded the standard for satisfactory distribution of loans to individuals of varying incomes and businesses of different sizes.
- The geographic distribution of the bank's loans within the AA is reasonable.
- There have been no complaints with respect to FLNB's CRA performance.

The following pages further describe FLNB's CRA performance.

DESCRIPTION OF INSTITUTION

FLNB is headquartered in the city of Lockhart, Caldwell County, Texas, which is approximately 40 miles southeast of Austin. Four automated teller machines (ATMs) are available in Lockhart and one in Martindale. The bank also has two drive-through facilities located behind the main bank in Lockhart.

FLNB is 100% owned by Lockhart Bancshares Inc. Texas (LBI) a one-bank holding company (HC) located in Lockhart. LBI is a two-tiered one-bank HC, which includes the intermediate HC of LBI Delaware. LBI is 100% independently owned by shareholders. Total assets of LBI were \$12 million, as of June 30, 2002.

The bank's principal focus is to promote economic development in its AA through its lending programs. FLNB's primary lending products include residential, consumer, and commercial loans. Total loans as of June 30, 2002, amounted to \$71.5 million, which comprise 69% of total assets. The following table reflects a detailed breakdown of FLNB's loan portfolio as of June 30, 2002.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Construction	4,169	6
RE Farmland	3,305	5
RE Residential (1-4)	14,975	21
RE Multifamily Residential	0	0
RE Nonfarm Nonresidential	20,858	29
Agricultural Production	3,535	5
Commercial and Industrial	14,457	20
Consumer	10,163	14
States/Political Subdivisions	0	0
Other	29	0
Total	71,491	100

Bank lobby and drive-through services are provided Monday through Friday at the main bank, while only drive-through services are provided on Saturdays. FLNB faces strong competition from other banks in the AA as well as those located outside the AA. FLNB has a 24-hour telephone audio response system, which allows customers to obtain account balance information, transfer funds between accounts, and make loan payments. This organization also has an Internet web site, which provides information concerning the bank's services as well as obtaining deposit account information, transfers between accounts, and bill paying. Based on its financial condition, the local economy, product offerings, competition, and prior performance, FLNB has the ability to meet the various credit needs in its community. At our last CRA examination in August 1998, FLNB's CRA rating was "Satisfactory." No legal impediments or other factors hinder the bank's ability to provide credit in its AA.

DESCRIPTION OF CALDWELL COUNTY

FLNB has designated Caldwell County as its assessment area. Caldwell County is part of the Austin-San Marcos Metropolitan Statistical Area (MSA). Principal communities located in the assessment area include Lockhart, Luling, Martindale, Dale, and Maxwell. Specific demographic and economic data for this area is listed in the table on the following page.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	6,637
Number of Households	8,768
<i>Geographies</i>	
Number of Block Numbering Areas (BNAs)	7
% Low-Income BNAs	14.0
% Moderate-Income BNAs	43.0
% Middle-Income BNAs	43.0
% Upper-Income BNAs	0.00
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	24,037
2001 HUD-Adjusted MFI	64,700
2002 HUD-Adjusted MFI	71,100
<i>Economic Indicators</i>	
Unemployment Rate	4.09
2002 Median Housing Value	44,219
% of Households Below Poverty Level	24.95

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 1990 Census data, the AA has a combined population of 26,392. There are 10,123 housing units in the AA, of which 59% are owner-occupied, 27% renter-occupied and 14% are vacant. Approximately 37% of the families in the AA are considered low-income. Moderate-income families approximate 22% of the population, while middle- and upper-income families comprise the remaining 41%. Major employers in the AA include the local school district, several manufacturing companies, the city and county, and the local prison facility.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted one community leader during this examination. The contact is the owner and operator of a local retirement community. The contact stated that economic conditions were stable and that FLNB is active in the community and responsive to the credit needs in the county it serves.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Based on our analysis and demographic characteristics, management is performing in an outstanding manner in meeting the credit needs of its AA, including LMI individuals.

Loan-to-Deposit Ratio

FLNB's LTD ratio is strong given its asset size, financial condition, and lending opportunities within its AA. Since the last CRA examination, the LTD ratio has increased significantly from 46% on September 31, 1998, to 76% on June 30, 2002. FLNB's average LTD ratio over the past 16 quarters was 64%, which reflects a substantial increase from the previous CRA examination. Total loans outstanding have increased some 80% since June 30, 1998. While the average LTD ratio is slightly below the peer average, the bank's performance is considered strong given the loan growth experienced since the previous PE. The following table is comprised of the bank's internal peer group, which includes similarly situated institutions within FLNB's market area and comparable competitors. The LTD ratio for FLNB's internal peer group averaged 67% during this period.

Institution	Assets as of 12/31/01*	Average LTD Ratio %**
Citizens State Bank	48,000	57.19
American NB	86,000	68.15
FSB Smithville	72,000	85.73
City NB Taylor	138,000	42.68
Schertz B&TC	74,000	62.35
FSB Moulton	61,000	88.13
First Lockhart NB	104,000	64.04

* Asset sizes of institutions are in thousands (000's)

** The average LTD ratio for FLNB and for the six competing banks is for the period from September 1998 through June 2002.

Lending in Assessment Area

A substantial majority of the bank's loans were made within its AA. In order to assess performance for these criteria, we reviewed a sample of 25 commercial, 25 consumer, and 25 residential loans originated during 1999 through June 2002. Our analysis determined that 80% of the number and 87% of the dollar amount of commercial loans were made within the AA. We further determined that 80% of the number and 73% of the dollar amount of consumer loans were made within the bank's AA. Finally, we determined that 88% of the number and 81% of the dollar amount of residential loans were made within the AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	20	80	512	87	5	20	75	13
Consumer	20	80	242	73	5	20	88	27
Residential	22	88	1,338	80	3	12	331	20
Total Reviewed	62	83	2,093	81	13	17	494	17

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

The loan portfolio reflects a good distribution of residential, consumer, and commercial loans among individuals of various income levels and businesses of different sizes within the AA. Our analysis included a sample of 20 residential, 25 consumer, and 20 commercial loans originated during the period of 1998 through June 2002.

Our analysis reflects good consumer loan penetration to LMI households. However, the bank's penetration of residential loans to low-income households is quite low. Based on the 1990 Census, 37% of AA families are low-income. Our review determined that only 5% of residential loans originated were made to low-income families. According to management, there are very few homes available in the AA at selling prices that LMI families could qualify for. The bank has been very successful in meeting moderate-income family residential real estate demands.

The following charts reflect the results of our sample of residential and consumer loans originated in FLNB's AA.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	37.3		22.2		23.2		17.2	
	% of Number	% of Amount						
Total	5	4.3	30	26.2	40	41.1	25	28.4

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	36		20		18		26	
	% of Number	% of Amount						
Total	36	22	28	41	20	23	16	14

FNBC originates a substantial number of commercial (non-agricultural) loans, the vast majority of which have been made to “small businesses with revenues less than \$1 million.” Management continues to focus on providing loans that will enhance the local economy.

The following chart reflects our analysis of a sample of 20 commercial loans made since our last PE.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses ³	95.80	4.20
% of Bank Loans in AA #	90	10
% of Bank Loans in AA \$	76	24

Geographic Distribution of Loans

The geographic distribution of loans within the BNAs is good given the demographics of the AA. Our analysis included 20 residential, 25 consumer, and 20 commercial loans originated during 1999 through September 2002.

Our analysis initially indicated that the geographic distribution of commercial loans in the low-income area did not reflect the make-up of this AA. AA business information indicates that 11% of non-farm businesses are located in this one low-income area. Our commercial loan analysis found that no loans were made to low-income area businesses. Limited lending opportunities and physical restrictions in this one area contribute to the low performance of low-income area non-farm businesses. This low-income census tract is moderately populated and primarily consists of larger agricultural-related properties.

The penetration in moderate-income census tracts for residential real estate lending is slightly below AA demographics. Residential lending opportunities are limited and restricted by the lack of quality inhabitable homes available for purchase in this area. FLNB has made efforts to help meet affordable housing demands in Lockhart by funding the development of residential housing units. These properties are under agreement to specifically target LMI income individuals. The tables on this and the following page reflect the results of our geographic distribution test for residential, consumer, and commercial loans.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied ⁴	10.2		45.6		44.2		0.0	
	% of Number	% of Amount						
Totals	10	8	30	40	60	52	0.0	0.0

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ⁵	12.4		49.7		37.9		0.0	
	% of Number	% of Amount						
Totals	20	9	32	45	48	46	0.0	0.0

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses ⁶	11		55		34		0.0	
	% of Number	% of Amount						
Totals	0.0	0.0	35	44	65	56	0.0	0.0

Qualified Loans and Services

As stated previously, FLNB has provided funding for the development of affordable housing in the Lockhart area. FLNB provided a loan for \$773 thousand in August 2001 to fund the development of residential lots in the bank's only low-income census tract. These properties are subject to restrictions that require that at least 51% of the 44 new housing units be owned and occupied by LMI residents.

Funding in the amount of \$450 thousand has also been provided to the Housing Authority of the City of Lockhart (HACL) for the refinancing and improvement of existing local rental units. These units were acquired as part of an Affordable Housing Disposition Plan. This plan requires that the HACL set aside 35% of the total 82 units to meet the needs of the low- to very low-income residents in Lockhart.

Funding has also been provided for child development and family support services targeting LMI families. A loan was made by FLNB to Community Action Inc. of Hays, Caldwell, and Blanco counties in the amount of \$531 thousand during September 2000. This was a construction and permanent loan for a building in Luling to be used for the Headstart Program that provides child development and family support services to economically disadvantaged families with children up to 5 years old.

Responses to Complaints

No complaints relating to their CRA performance have been received by FLNB.

Fair Lending Review

A fair lending review was performed in August 1998 in accordance with the OCC's risk-based fair lending examination standards. The review targeted home purchase loan applications within a one-year time period. That analysis revealed no evidence of illegal discrimination or disparate treatment by FLNB. There is no need for the OCC to conduct a comprehensive fair lending examination in connection with this CRA evaluation.