



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 11, 2013

COMMUNITY REINVESTMENT ACT (CRA) PERFORMANCE EVALUATION

The Lamesa National Bank
Charter Number 13111

602 South 1st Street
Lamesa, TX 79331

Office of the Comptroller of the Currency
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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.

Lamesa National Bank's (LNB) CRA performance is satisfactory. We based our conclusion on LNB's lending practices. To evaluate these practices, we reviewed a sample of the bank's primary loan products. The rating is based on the following findings:

- LNB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, local competition, and assessment area (AA) credit needs. The LTD ratio averaged 41.51 percent during the evaluation period.
- A majority of the bank's loans, 84.91 percent by number and 75.07 percent by dollar amount, were extended to borrowers who live or operate their farms inside the AA.
- LNB's loan portfolio reflects reasonable penetration to borrowers of various income levels and to farms of different sizes.
- The geographic distribution of loans within the AA reflects excellent dispersion given LNB's business strategy and location.

SCOPE OF EXAMINATION

This Performance Evaluation assesses LNB's record of meeting the credit needs of the community in which it operates. We evaluated LNB using the following small bank performance criteria: LTD ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, geographic distribution, and responses to CRA-related complaints.

To evaluate LNB's lending performance, we selected a random sample of loans based on the bank's primary loan types. Primary loan types are those products that have been originated at the highest percentage by dollar amount and/or number of loans. Primary loan products sampled during this evaluation period were agricultural and consumer loans originated between January 1, 2010 and December 31, 2012.

DESCRIPTION OF INSTITUTION

LNB is a community bank in Lamesa, Texas, which is approximately 60 miles south of Lubbock, Texas. LNB is an intrastate bank with one main office and drive-up facilities. As of December 31, 2012, LNB had total assets of \$276 million with 26.48 percent of total assets in the loan portfolio.

The bank's primary loan products include agricultural loans by dollar amount and consumer loans by number. The following chart details a breakdown of LNB's loan portfolio as of December 31, 2012.

Loan Portfolio Composition as of December 31, 2012				
Loan Type	\$ (000)	%	# of Notes	%
Agricultural	39,191	53.68	439	49.00
Commercial	19,301	26.44	158	17.63
Agricultural Real Estate	8,174	11.20	41	4.58
Commercial Real Estate	5,035	6.90	11	1.23
Consumer	1,137	1.56	241	26.90
Residential Real Estate	171	0.22	6	0.66
TOTAL	73,009	100%	896	100%

Source: December 31, 2012 Call Report

Lobby services at the main bank are provided Monday through Friday from 9:00 AM to 3:00 PM. The bank offers traditional banking products including a variety of loan and deposit accounts. Drive-up facilities are located across the street from the main branch and operate Monday through Friday from 9:00 AM to 3:00 PM. LNB also offers online banking at www.lamesanb.com. The online banking service provides access to account information, online transfers between accounts, and bill pay services. Based on its financial condition, the local economy, product offerings, and competition, LNB has the ability to meet the various credit needs in its community. The bank was rated “Satisfactory” at the last CRA examination on May 22, 2007.

LNB’s business strategy is to provide outstanding banking services to customers in the high plains of West Texas while increasing the long-term value of the owners’ investment. No legal impediments or other factors hinder LNB’s ability to provide credit in its AA. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

DESCRIPTION OF ASSESSMENT AREA

Lamesa NB has designated Dawson County as its AA. Dawson County is located in the high plains of West Texas. Lamesa is the largest city in Dawson County and is the county seat. Other cities located within the AA include Ackerly and Welch. Specific demographic and economic data for the AA are listed in the following table.

Demographic and Economic Characteristics of Dawson County	
<i>Population</i>	
Number of Families	3,146
Number of Households	4,424
<i>Geographies</i>	
Number of Census Tracts	4
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	50.00%
% Middle-Income Census Tracts	50.00%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	43,896
2010 HUD-Adjusted MFI	46,500
2011 HUD-Adjusted MFI	48,600
2012 HUD-Adjusted MFI	49,300
<i>Economic Indicators</i>	
Unemployment Rate	2.54%
2012 Median Housing Value	\$46,400
% of Households Below Poverty Level	17.43%

Source: 2010 Census data and HUD updated income data

The AA consists of Dawson County and does not arbitrarily exclude low- and moderate-income (LMI) geographies. There are four census tracts in the AA. Two census tracts are designated as middle-income and two as moderate-income as of the 2010 Census.

Based on 2010 Census data, the AA has a total population of 13,833. There are 5,279 housing units in the AA, of which 64 percent are owner-occupied; 20 percent are renter-occupied; and 16 percent are vacant. Low-income families represent 17.71 percent of the population; moderate-income families represent 16.85 percent; middle-income families represent 27.94 percent; and upper-income families represent 37.51 percent of the population.

The local economy is based on agricultural-related activities. The largest non-agricultural employers within the AA include the Lamesa Independent School District and the new Medical Arts Hospital. Competition is moderate with three other financial institutions: a branch of First United Bank - Dimmitt, a branch of State National Bank of Big Spring, and one local credit union. The Farm Service Agency also has an office in Lamesa.

We interviewed two community contacts for the purpose of determining a community profile, identifying opportunities for participation by local financial institutions, and determining the performance of local financial institutions. Both contacts indicated that the biggest challenge facing the community is a shortage of housing. Neither contact identified any unmet credit needs in the community. The community contacts indicated that local financial institutions are cooperative in trying to meet the community's credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LNB is meeting the credit needs of its AA in a satisfactory manner. This conclusion is based on the analysis of performance criteria, consistent with the bank's available resources and capabilities. The following sections provide details of our assessment of each performance criteria.

Loan-to-Deposit Ratio

LNB's LTD ratio is reasonable given the bank's size, financial condition, local competition, and AA credit needs. This determination is based on the quarterly average LTD ratio from June 30, 2007 through December 31, 2012 of 41.51 percent. During the evaluation period, LNB's LTD ratio ranged from a low of 25.32 percent to a high of 71.72 percent. The drought has significantly reduced agricultural loan demand at the bank over the past three years. As a result, LNB's LTD ratio is lower than some other similarly situated institutions. The average LTD ratio of similarly situated banks within or contiguous to the AA for the same period was 56.97 percent.

The quarterly average LTD ratio for each similarly situated bank in or contiguous to the AA is listed below. Please note that these banks are listed alphabetically, and no ranking is intended or implied.

Loan-to-Deposit Ratios		
<i>Institution</i>	<i>Total Assets (000's)</i> (As of 12/31/2012)	Average Loan-to-Deposit Ratio
Community Bank of Snyder	133,658	67.47
State National Bank of Big Spring	327,212	17.68
The Lamesa National Bank	275,757	41.51
West Texas State Bank	144,517	63.73
Western Bank	192,648	79.01

Source: *Institution Reports of Condition from June 2007 to December 2012*

Lending in Assessment Area

A majority of the bank's loans, 84.91 percent by number and 75.07 percent by dollar amount, were extended to borrowers who live or operate their farms inside the AA. In order to assess performance for these criteria, we reviewed 56 farm and 50 consumer loans originated during 2010, 2011, and 2012. The breakdown by loan category is illustrated in the following table.

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural	45	80.36	11	19.64	56	\$9,023	74.77	\$3,044	25.23	\$12,067
Consumer	45	90.00	5	10.00	50	\$257	87.41	\$37	12.59	\$294
Totals	90	84.91	16	15.09	106	\$9,280	75.07	\$3,081	24.93	\$12,361

Source: Sample of loans used for CRA performance analysis

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

LNB's loan portfolio reflects an overall reasonable penetration among farms of different sizes and individuals and families of various income levels (including low- and moderate-income) within the AA for both 2010-2011 and 2012. To perform our analysis, we reviewed income information of 21 agricultural loans and 25 consumer loans originated in the AA during 2010 and 2011. In addition, we reviewed income information of 24 agricultural loans and 20 consumer loans originated during 2012.

Farm Loans – The percentage of LNB farm loans by number is near the ratio of AA farms with gross annual revenues less than or equal to \$1 million. Based on the 2011 Business Demographic Summary, there were 284 farms within the AA. Of this number, 96.48 percent of farms reported revenues less than or equal to \$1 million. Based on the 2012 Business Demographic Summary, there are 275 farms within the AA. Of this number, 97.09 percent of farms reported revenues less than or equal to \$1 million. Of the loans in each farm purpose sample for 2010-2011 and 2012, 95.24 percent and 95.83 percent, respectively, were to farms reporting annual revenues below \$1 million showing reasonable penetration within this loan type. The following tables reflect the results of our selected sample of farm loans originated in the AA.

Borrower Distribution of Farm Loans in AA – 2010-2011				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Farms	96.48	2.11	1.41	100%
% of Bank Loans in AA by #	95.24	4.76	-	100%
% of Bank Loans in AA by \$	57.50	42.50	-	100%

Source: Loan sample; Dunn and Bradstreet data

Borrower Distribution of Farm Loans in AA – 2012				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Farms	97.09	1.82	1.09	100%
% of Bank Loans in AA by #	95.83	4.17	-	100%
% of Bank Loans in AA by \$	96.68	3.32	-	100%

Source: Loan sample; Dunn and Bradstreet data

Consumer Loans – The percentage of LNB consumer loans by number significantly exceeds the ratio of low- and moderate-income households in the AA. Based on 2000 Census information, 24.28 percent of households in the AA were low-income, and 18.99 percent were moderate-income. Our review of 2010 and 2011 data determined that 32.00 percent and 36.00 percent of consumer loans made during this timeframe were to low- and moderate-income households, respectively. Based on 2012 Census information, 28.41 percent of households in the AA were low-income, and 20.12 percent were moderate-income. Our review of 2012 data determined that 40.00 percent and 45.00 percent of consumer loans were made to low- and moderate-income households, respectively, reflecting excellent penetration within this loan type. The following tables show the results of our selected samples of consumer loans originated in the AA.

Borrower Distribution of Consumer Loans in AA – 2010-2011								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of #of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	24.28	32.00	18.99	36.00	19.78	20.00	36.95	12.00

Source: Loan sample; U.S Census data

Borrower Distribution of Consumer Loans in AA – 2012								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of #of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	28.41	40.00	20.12	45.00	13.29	15.00	38.18	0.00

Source: Loan sample; U.S Census data

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, LNB’s geographic distribution of loans within the census tracts reflects excellent dispersion given the bank’s business strategy and location. According to the 2000 census tract reference map, there were no low- or moderate-income tracts at that time. Therefore, we did not assess the geographic distribution of loans originated in 2010-2011. According to the 2010 census tract reference map, tract 9504.02 and 9505.00 are now considered moderate-income tracts. As a result of these changes, our analysis included 26 farm loans and 20 consumer loans originated in the AA in 2012.

Farm Loans – The percentage of LNB farm loans by number exceeds the ratio of AA farms reflecting excellent dispersion in moderate-income census tracts. Our review of 2012 loans determined that 37.50 percent of farm loans are located in moderate-income census tracts, and 62.50 percent are located in middle-income census tracts. The following table reflects the results of our selected sample of farm loans originated in LNB’s AA.

Geographic Distribution of Farm Loans in AA – 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Farms	0.00	0.00	26.91	37.50	73.09	62.50	0.00	0.00

Source: Loan sample; Dunn and Bradstreet Data

Consumer Loans – The percentage of LNB consumer loans by number exceeds the ratio of moderate-income households in the AA reflecting reasonable dispersion. Our review of loans originated from 2012 showed that 55.00 percent of consumer loans are located in moderate-income census tracts, and 45.00 percent are located in middle-income census tracts. The following table reflects the results of our selected sample of consumer loans originated in LNB’s AA.

Geographic Distribution of Consumer Loans in AA – 2012								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer	0.00	0.00	46.84	55.00	53.16	45.00	0.00	0.00

Source: Loan sample; U.S. Census data

RESPONSES TO COMPLAINTS

No complaints relating to CRA performance have been received by LNB during this evaluation period, and this has a neutral impact on the bank's performance.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Pursuant to 12 CFR 25.28(c) or 12 CFR 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices, in any geography by the bank or FSA or in any AA, by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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