



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

## **PUBLIC DISCLOSURE**

**August 6, 2007**

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

**National Bank & Trust  
Charter Number 3906**

**141 West Colorado Street  
La Grange, TX 78945**

**Comptroller of the Currency  
San Antonio South  
10101 Reunion Place Boulevard Suite 402  
San Antonio, TX 78216**

**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.**

National Bank & Trust's (NB&T) lending performance reflects a satisfactory response to community credit needs in its assessment area (AA). The following factors support this rating:

- The average loan-to-deposit ratio of 50 percent over the prior 22 quarters is reasonable given the bank's size, financial condition, market focus, competition, and lending opportunities in the AA.
- A substantial majority of our sample of loans, 86 percent of the number and 88 percent of the dollar volume, originated within the AA of the bank.
- The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses and farms of different sizes.

## SCOPE OF EXAMINATION

Our examination scope covered the time period from January 14, 2002, the date of the prior Performance Evaluation, to July 19, 2007, the as of date for the current examination. We identified residential loans as the primary lending focus of the bank. NB&T also offers commercial loans (including commercial real estate), consumer loans, and farm (primarily real estate) loans. We selected a sample of 90 loans that included all major loan types and that originated during the evaluation period to analyze NB&T's lending performance.

## DESCRIPTION OF INSTITUTION

NB&T is an independently owned community bank with total assets of \$102.9 million as of June 30, 2007, and one location in La Grange, Texas. NB&T is a wholly owned subsidiary of First La Grange Bancshares, Inc., a one-bank holding company. Competition comes mainly from the local state bank with several community bank branches and one nationwide bank branch located in the area. NB&T offers products and services that accommodate both retail and commercial segments within its AA. The following table gives a breakdown of the NB&T loan portfolio, which represents 41 percent of the bank's total assets.

<b>Loan Category</b>	<b>\$ (000's)</b>	<b>Percentage</b>
Residential Real Estate Loans	20,007	47.55
Commercial Loans	7,640	18.15
Consumer Loans	7,001	16.63
Agricultural Loans	6,215	14.77
Multifamily Loans	746	1.77
Other Loans	477	1.13
<b>Total</b>	<b>\$42,086</b>	<b>100.00%</b>

*Source: June 30, 2007 Consolidated Report of Condition*

NB&T provides lobby and drive-through services during reasonable hours from Monday through

Friday. It has one automated teller machine that allows customers to obtain cash, request account balance information, and transfer funds between accounts. NB&T also offers 24-hour telephone banking and Internet services. Based on its financial condition, the local economy, product offerings, competition, and prior performance, NB&T has the ability to meet the various credit needs in its community. The bank was rated “Satisfactory” at the last CRA examination on January 14, 2002. No legal impediments or other factors hinder the ability of NB&T to provide credit needs in its AA.

## DESCRIPTION OF FAYETTE COUNTY ASSESSMENT AREA

NB&T designated all of Fayette County as its AA. The county includes the cities of La Grange, Schulenberg, Fayetteville, Round Top, and Carmine. The AA includes seven census tracts with three tracts designated middle-income and four tracts designated upper-income. Fayette County does not include any low- or moderate-income census tracts. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Based on 2000 Census data, the AA population totals 22 thousand. It has 11 thousand housing units with 61 percent owner occupied, 17 percent renter occupied, and 21 percent vacant. The economy in the AA is dependent on oil and gas activity, oil-field related services, and agriculture.

To gather current information on the nature of the community and potential lending opportunities within the AA, we contacted a local government official during this examination. The contact indicated that residential (including vacation and second homes) and consumer loans were credit needs in the community. The contact indicated that banks were meeting the financial needs of the community.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	6,142
Number of Households	8,757
Number of Owner Occupied Household Units / % of Total Household Units	6,817 61 %
<i>Geographies</i>	
Number of Census Tracts/BNA	7
% Low-Income Census Tracts/BNA	0 %
% Moderate-Income Census Tracts/BNA	0 %
% Middle-Income Census Tracts/BNA	43 %
% Upper-Income Census Tracts/BNA	57 %
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$ 36,380
2006 HUD-Adjusted MFI	\$ 43,100
<i>Economic Indicators</i>	
Unemployment Rate	1.61 %
2006 Median Housing Value	\$ 75,891
% Of Households Below Poverty Level	13 %

*Source: 2000 US Census Data.*

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

NB&T demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products of the bank: residential loans, small business loans, consumer loans, and small farms loans. We selected a sample of loans to determine the extent of lending within the AA and the distribution of loans by borrower income level. We based our findings for the following factors on that sample.

**Loan-to-Deposit Ratio**

NB&T's quarterly average loan-to-deposit (LTD) ratio, 50.11 percent, is reasonable compared to the other banks in the county that management considers its primary competition. We compared the average of the past 22 quarters of NB&T to other banks in the AA. NB&T's ratio has fluctuated from a low of 45.37 percent at June 30, 2003, to a high of 54.80 percent at September 30, 2005. At June 30, 2007, the LTD ratio was 48.27 percent. The main reason for the decline is an increase in deposits after a Houston bank holding company purchased locally owned State Bank of La Grange (State Bank).

Historically, State Bank (located across the street from NB&T) was its main competition. State Bank is a much larger institution, with over \$800 million in total assets and 25 offices, than NB&T. In early 2007, Prosperity Bancshares purchased State Bank and now operates the Fayette County offices as branches of Prosperity Bank. After the purchase was announced, some State Bank customers moved their deposit accounts to NB&T. The deposit growth at NB&T caused a decline in the LTD ratio. Deposit growth has slowed, and bank management expects some loan growth as customers start to move their loans from the former State Bank to NB&T.

None of the other banks in the county are similarly-situated to NB&T, which has only one office and total assets over \$100 million. However, we noted that Fayetteville Bank is the most similar with two locations, in La Grange and Schulenburg, and total assets very close to NB&T's. The quarterly average LTD ratio for Fayetteville Bank was 64.82 percent, but their ratio has declined from a high of 81.82 percent during the past 22 quarters, to 50.52 percent as of June 30, 2007. This is just slightly higher than the 48.27 percent reported by NB&T at the same date.

<b>Institution</b>	<b>Assets (000's) (as of 06/30/07)</b>	<b>Average LTD Ratio</b>
Colorado Valley Bank	35,552	95.98
Carmine State Bank	39,567	47.27
Fayette Savings Bank, SSB	61,660	60.60
Fayetteville Bank	102,845	64.82
Round Top State Bank	188,755	68.97
<b>National Bank &amp; Trust</b>	<b>102,884</b>	<b>50.11</b>

*Source: Uniform Bank Performance Reports*

## Lending in Assessment Area

NB&T exceeds the standards for satisfactory performance with a substantial majority of loans originating in the AA. We reviewed a sample of residential, consumer, agricultural, and commercial loans that originated since the prior evaluation. The following table reflects the distribution of loans, by number and dollar volume, that originated in and out of the AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	23	92.00%	\$1,945	92.03%	2	8.00%	\$169	7.97%
Consumer	19	76.00%	\$338	76.82%	6	24.00%	\$102	23.18%
Small Farm	15	75.00%	\$553	62.55%	5	25.00%	\$331	37.45%
Small Business	20	100.00%	\$1,754	100.00%	0	0.00%	\$0	0.00%
<b>Total Reviewed</b>	<b>90</b>	<b>85.56%</b>	<b>\$4,589</b>	<b>88.41%</b>	<b>13</b>	<b>14.44%</b>	<b>\$602</b>	<b>11.59%</b>

Source: Loan Sample.

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

Overall, NB&T meets the 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 consumer loans, residential loans, small business loans, and small farm loans. The following narratives and tables document our findings.

Our analysis of residential lending activity reflected percentages lower than those reported in the demographic data for low-income families. Households below the poverty level represent 13 percent of the total households in the AA. The level of income for low-income families, based on the 2006 HUD-adjusted median family income, is \$21,550 or less. This level of income could inhibit potential borrowers from qualifying for residential loans, since the 2006 median housing value is \$75,891. Residential lending activity to moderate-income borrowers exceeds the demographic data for moderate-income families.

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	15.19%		14.78%		20.18%		49.85%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	4.35%	0.64%	17.39%	9.47%	13.04%	6.05%	65.22%	83.84%

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

Consumer lending activity reflects a reasonable distribution of loans to borrowers with low- and moderate-income levels. As shown in the following table, 44 percent of the number of loans in our sample originated to borrowers with low- and moderate-income levels. This amount exceeds the 37 percent reported in the demographic data for low- and moderate-income households.

BORROWER DISTRIBUTION OF CONSUMER LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	21.59%		15.17%		16.41%		46.83%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	16.00%	12.51%	28.00%	15.65%	12.00%	6.81%	44.00%	65.03%

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

NB&T demonstrated a strong distribution of loans to small businesses and loans to small farms. In making the comparison, we noted that 35 percent of the businesses and 2 percent of the farms in the AA did not report revenue information. The following tables compare the loan sample to the percentage of businesses in the AA.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *	60.89%	3.64%
% of Bank Loans in AA #	80.00%	20.00%
% of Bank Loans in AA \$	92.45%	7.55%

Source: Loan sample; Dunn and Bradstreet data; \* 35.47% of businesses did not report revenue data

BORROWER DISTRIBUTION OF SMALL LOANS FOR AGRICULTURE PURPOSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *	96.15%	1.65%
% of Bank Loans in AA #	100.00%	0.00%
% of Bank Loans in AA \$	100.00%	0.00%

Source: Loan sample; Dunn and Bradstreet data; \* 2.20 % of businesses did not report revenue data

## Geographic Distribution of Loans

An analysis of loan distribution by geographic area is not meaningful since the AA does not include any low- or moderate-income areas.

## Responses to Complaints

NB&T has not received any consumer complaints related to its CRA performance during this evaluation period.

## 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.