



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 31, 2001

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**National Bank
Charter Number 4097**

**905 Main Street
Gatesville, Texas 76528**

**Comptroller of the Currency
Austin Field Office
8310 Capital of Texas Highway, Suite 250
Austin, Texas 78731-1080**

NOTE: 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.

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 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 National Bank (NB), Gatesville, Texas as prepared by The Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of January 31, 2001. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

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

- X NB's lending performance is outstanding given its size, financial condition, and known credit needs in its assessment area.
- X The bank's loan-to-deposit (LTD) ratio is very good and has averaged 61% since our last examination.
- X The vast majority of NB's loans are within its assessment area.
- X NB has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- X The geographic distribution of the bank's loans within its assessment area is reasonable.
- X NB participates in a Small Business Investment Corporation (SBIC), which provides operating loans to small businesses throughout the state of Texas.
- X There have been no complaints with respect to NB's CRA performance.

The following pages further describe NB's CRA performance.

DESCRIPTION OF INSTITUTION

NB is a 254 million (MM) institution headquartered in Gatesville, Texas, which is approximately 40 miles west of Waco, Texas. NB has five offices, each of which includes a drive-through service lane. Automated teller machines (ATMs) are located at each branch.

The institution's principal focus is to promote economic development in its assessment area through its lending programs. NB's primary lending products include commercial, residential real estate, and consumer loans. The bank's mortgage loan department, which is located at the Copperas Cove branch, originates conventional, Veterans Administration (VA), and Federal Home Administration (FHA) mortgage loans. Total loans as of December 31, 2000 amounted to 167MM, which comprise 66% of total assets. The following reflects a detailed breakdown of NB's loan portfolio as of December 31, 2000.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Construction	9,709	5.8
RE Farmland	4,450	2.7
RE Residential (1-4)	44,339	26.5
RE Multifamily Residential	4,856	2.9
RE Nonfarm Nonresidential	39,262	23.5
Agricultural Production	9,708	5.8
Commercial and Industrial	20,455	12.2
Consumer	30,269	18.1
State and Political Subdivisions	2,430	1.4
Other	1,813	1.1
Total	167,291	100.0

Bank lobby services are provided Monday through Friday at the Gatesville, Hewitt, and Lampasas branches. The Copperas Cove and Killeen offices are also open on Saturday. Drive-through services are provided Monday through Saturday at four of the offices. Drive-through services at the Gatesville office are provided Monday through Friday. NB faces strong competition from area banks, savings and loans, credit unions, and investment brokerage firms. Based on its financial condition, the local economy, product offerings, competition, and prior performance, NB has the ability to meet the various credit needs in its community. NB's 24-hour Internet web site provides information concerning the

as obtaining account information, transfers between accounts, bill paying, automated clearing house (ACH) processing for commercial customers, and obtaining/processing VA mortgage loans. NB also has a 24-hour telephone audio response system, which allows customers to obtain account balance information. At our last CRA examination on August 6, 1996, the bank's CRA rating was **ATISFACTORY.**" No legal impediments or other factors hinder the bank's ability to provide credit in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

The bank's overall assessment area includes two Metropolitan Statistical Areas (MSAs) and one Block Numbering Area (BNA). Three branches (Gatesville, Copperas Cove, and Killeen) are located in the Temple-Killeen MSA (MSA 1), the Hewitt branch is located in the Waco MSA (MSA 2), and the Lampasas branch is located in the Lampasas County Non-MSA (BNA). Specific demographic data for all three areas is listed below.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA			
<i>Population</i>	<i>MSA 1</i>	<i>MSA 2</i>	<i>BNA</i>
Number of Families	37,623	3,810	3,188
Number of Households	47,605	4,811	4,221
<i>Geographies</i>			
Number of Census Tracts/BNA	29	2	2
% Low-Income Census Tracts/BNA	3.45	0	0
% Moderate-Income Census Tracts/BNA	17.24	0	0
% Middle-Income Census Tracts/BNA	65.52	0	50
% Upper-Income Census Tracts/BNA	13.79	100	50
<i>Median Family Income (MFI)</i>			
1990 MFI for AA	25,834	39,436	28,652
1999 HUD-Adjusted MFI	39,000	42,700	33,900
2000 HUD-Adjusted MFI	39,000	43,800	34,700
<i>Economic Indicators</i>			
Unemployment Rate	3.85%	1.84%	4.64%
2000 Median Housing Value	53,113	68,002	54,931
% of Households Below Poverty Level	11.90%	4.30%	19.14%

These areas are made up contiguous census tracts or BNAs, which surround and include each banking office. The consolidated assessment area includes a total of 31 census tracts and 2 BNAs. This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies. Further description of each area is presented on the following pages.

Temple/Killeen Assessment Area

This assessment area includes portions of the Temple-Killeen MSA that surround and include the cities of Gatesville, Killeen, Harker Heights, Copperas Cove, and Fort Hood. The Fort Hood Army Base is the largest active duty armored post in the United States Armed Forces. It is also the largest single location employer in Texas. The post has 41 thousand (M) assigned soldiers and 13M civilian personnel employed. The local economy is strong with major employers including federal and local governments and service industries.

Based on 1990 Census data, the assessment area has a population of 145M. The area includes one low-income tract, five moderate-income tracts, 19 middle-income tracts, and four upper-income tracts. According to the 1990 housing data as provided in the census, there are 54M housing units in this assessment area of which 42% are owner-occupied, 46% are renter-occupied, and 12% are vacant. Approximately 17% of the families in the assessment area are considered low-income. Moderate-income families approximate 23% of the population, while middle- and upper-income families comprise the remaining 60%.

Hewitt Assessment Area

This assessment area includes two upper-income tracts, which are part of the Waco MSA and located in McLennan County. This area encompasses the city of Hewitt, Texas, which is considered the bedroom community of Waco, Texas. Based on 1990 Census data, the assessment area has a population of 13M. According to the 1990 housing data as provided in the census, there are 5M housing units in this area of which 55% are owner-occupied, 39% are renter-occupied, and 5% are vacant. Approximately 7% of the families in the assessment area are considered low-income. Moderate-income families approximate 9% of the population, while middle- and upper-income families comprise the remaining 84%. The local economy is considered very good. Major employers adjacent to or in the Hewitt area include the M&M Mars Company, Huck Manufacturing, Davis Iron Works, Coca-Cola, Allegan Manufacturing, and the Midway Independent School District.

Lampasas Assessment Area

The assessment area includes one middle-income tract and one upper-income tract. They are located in Lampasas County, which encompass the city of Lampasas, Texas. Based on 1990 Census data, the assessment area has a population of 12M. According to the 1990 housing data as provided in the census, there are 5M housing units in this area of which 61% are owner-occupied, 24% are renter-occupied, and 15% are vacant. Approximately 20% of the families in this area are considered low-income. Moderate-income families approximate 13% of the population, while middle- and upper-income families comprise the remaining 67%. The local economy is considered very good. Major employers in Lampasas County include the Lampasas Independent School District, City of Lampasas, Rollins Brook Hospital, and H&M Food Systems

In order to gather more current information on the nature of the community and potential lending opportunities in the assessment area, we contacted two community leaders during this examination. One contact is an officer with the Central Texas Home Builders Association. The second contact is an officer with the City of Killeen Industrial Foundation. One contact mentioned that loans to renovate distressed commercial buildings were needed in order to encourage companies to move their businesses to the Killeen area. Both contacts further stated that NB is active in the community and responsive to the credit needs in its assessment areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management's lending products and practices have been successful in meeting the credit needs of the assessment areas, including LMI individuals, consistent with its resources and capabilities. NB's overall performance will be based principally on its performance in the Temple-Killeen MSA, as the vast majority of lending/deposit activity has occurred in this assessment area. As of December 2000, approximately 76% of outstanding loans and 78% of total deposits are located in this MSA. The bank expanded into the Lampasas area since the last Performance Evaluation (PE). Loan and deposit volume in this area, as well as the Hewitt area, has not been significant.

Loan-to-Deposit Ratio

NB's LTD ratio is very good, given its asset size, financial condition, and lending opportunities in the assessment areas. Since the last CRA examination, the LTD ratio has steadily increased from 62% at June 30, 1996 to 73% at December 31, 2000. The average LTD ratio over the past 16 quarters was 61%, which is up from an average 57% during the previous examination. This performance exceeds the LTD ratio of nine competing banks, headquartered in the assessment area, that averaged 55%.

The bank has a mortgage-banking department, which originates a large volume of conventional, FHA, and VA mortgage loans. Many of these loans are sold to permanent investors within a short period of time after funding. During the last three years, the number and dollar amount of loans originated and sold in the secondary market are detailed as follows:

Year	Number	Dollar Amount (000's)
2000	474	39,822
1999	463	34,709
1998	576	43,788

Had these loans remained on the bank's books, the LTD ratio would have been substantially higher.

Lending in the Assessment Area

The vast majority of the bank's loans are within all three assessment areas. To assess this criteria, we sampled 105 consumer loans and 98 commercial loans made in 1999 and 2000, and all mortgage-related loans originated in 1998 through 2000 that were reported on the Home Mortgage Disclosure Act (HMDA) Loan Application Register. Our analysis determined that 87% of the number and 85% of the dollar amount of mortgage-related loans were made within the bank's assessment areas. We further determined that 72% of the number and 74% of the dollar amount of consumer loans were made within the bank's areas. Finally, we determined that 70% of the number and 78% of the dollar amount of commercial loans were within the bank's assessment areas.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Mortgage	2,115	86.82	141,442	85.43	320	13.18	24,113	14.57
Consumer	76	72.38	581	73.54	29	27.62	210	26.46
Commercial	69	70.04	5,124	77.80	29	29.96	1,462	22.20
Total Reviewed	2,260	85.67	147,147	85.08	378	14.33	25,785	14.92

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

The loan portfolio reflects a satisfactory distribution of mortgage and consumer loans to individuals with different income levels and to businesses of different sizes in the Temple/Killeen MSA. In order to assess this bank's performance within that one area, we used HMDA information relative to mortgage-related loans originated in 1998 through 2000 and a sample of 28 consumer loans originated in 1999 and 2000.

Our analysis reflects very good consumer loan penetration to LMI households and mortgage loans to moderate-income families. Our analysis of mortgage loans made to low-income families did not appear to reflect the make-up of the Temple/Killeen assessment area. According to census demographic information,

approximately 17% of this area are low-income families. The mortgage-related sample indicates that 2% of all mortgage-related loans originated in the Temple/Killeen assessment area were made to low-income families. According to management, there are little if any qualified homes available in this assessment area at selling prices for which low-income families could qualify. Management is not aware of any government-related programs with funds currently available to assist low-income families in the Temple-Killeen MSA in purchasing a home. NB has participated in the City of Killeen First Time Homebuyers Assistance Program, which provides lower cost and down payment assistance to households whose income does not exceed 80% of the area's MFI. The bank funded two loans totaling 121M under this program before City funds became exhausted. The charts below reflect the results of our analysis of lending activity in the Temple/Killeen MSA. Also presented is the bank's performance in the Hewitt and Lampasas assessment areas, which had limited activity during this period.

RESIDENTIAL REAL ESTATE Temple/Killeen MSA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	16.84		23.36		24.44		35.36	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000	2.41	0.89	23.19	18.69	33.04	31.48	41.36	48.94
1999	2.77	1.31	27.93	23.93	36.25	36.57	33.05	38.19
1998	1.84	0.80	26.40	23.74	37.04	40.29	34.72	42.96
Total	2.19	0.74	26.02	22.02	35.90	37.38	35.89	39.86

CONSUMER Temple/Killeen MSA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	17.39		20.53		23.88		38.20	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	28.57	24.21	32.14	19.92	21.43	25.21	17.86	30.66

RESIDENTIAL REAL ESTATE Waco MSA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	6.80		9.21		23.39		60.60	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000	0	0	0	0	33.34	32.61	66.66	67.39
1999	0	0	12.50	14.71	25.00	13.01	62.50	72.28
1998	0	0	15.40	9.81	30.80	10.21	53.80	79.98
Total	0	0	9.09	7.15	30.30	19.07	60.61	73.78

CONSUMER Waco MSA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	6.32		7.59		14.57		71.52	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	34.78	33.32	17.39	22.68	26.09	29.19	21.74	14.81

RESIDENTIAL REAL ESTATE Lampasas BNA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19.82		13.46		17.88		48.84	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000	2.10	0.16	10.40	5.23	27.10	17.64	60.40	76.97
1999	2.90	0.88	13.04	8.18	18.84	15.35	65.22	75.59
1998	0	0	0	0	20.00	7.17	80.00	92.83
Total	2.46	0.55	11.48	6.67	22.13	16.09	63.93	76.69

CONSUMER Lampasas BNA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	22.39		14.40		14.97		48.24	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	9.09	4.03	22.73	19.58	13.64	25.04	54.54	51.35

NB originates a satisfactory number of commercial-related loans, a number of which have been to “small businesses with revenues less than 1MM.” Management continues to focus on providing loans that will enhance the local economy. The following chart reflects the results of our analysis of a sample of commercial loans originated in 1999 and 2000 for the Temple/Killeen MSA as well as the Hewitt and Lampasas areas.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES Temple/Killeen MSA		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	95.04	4.96
% of Bank Loans in AA #	82.60	17.40
% of Bank Loans in AA \$	82.64	17.36

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Waco MSA		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	86.01	13.99
% of Bank Loans in AA #	91.67	8.33
% of Bank Loans in AA \$	86.17	13.83

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Lampasas Non-MSA		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	95.45	4.55
% of Bank Loans in AA #	85.00	15.00
% of Bank Loans in AA \$	66.43	33.57

Geographic Distribution of Loans

The geographic distribution of loans within the Temple/Killeen MSA is reasonable given the demographics of this assessment area. Our analysis included all mortgage-related loans originated in 1998 through 2000, and a sample of 29 consumer and 27 commercial loans originated in 1999 and 2000.

Our analysis initially appeared to indicate that the geographic distribution of consumer loans and commercial loans did not reflect the make-up of this one assessment area. Demographic information on consumers indicates that 20% of households live in moderate-income areas. Our consumer loan sample revealed that only 7% were made in moderate-income areas. Assessment area business information indicates that 15% of assessment area businesses are in moderate-income areas. Our commercial loan analysis found no loans were made to moderate-income area businesses.

The low number of LMI areas, limited lending opportunities, and physical restrictions in these areas, contribute to the low performance among moderate-income area households and businesses. The LMI census tracts are located in the city of Killeen, Texas. One of the moderate-income areas is located on the Fort Hood Army Base. The LMI census tracts are located in areas that are more assessable to other financial institutions that have offices located in these specific areas. The largest volume of loans originated by this bank is in the Gatesville office, which is the bank's headquarters. All census tracts located in and around the City of Gatesville are middle-income. Reports provided by management and verified by this Office indicate that a reasonable level of commercial loans is being made in these moderate areas. NB also participates in the City of Killeen's Reinvestment Zone Project by making loans to businesses to renovate commercial buildings in the downtown Killeen area, which is a low-income area. The bank has made two loans totaling 176M related to this program.

The following chart reflects the results of our sample of mortgage, consumer, and commercial loans for the Temple/Killeen assessment area. A geographic distribution analysis for the Hewitt and Lampasas assessment areas was not performed as neither area has LMI census tracts or BNAs.

RESIDENTIAL REAL ESTATE Temple/Killeen MSA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
# of Census Tracts	1		5		19		4	
%of AA Owner Occupied	0.08		5.81		75.09		19.02	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2000	0	0	1.74	1.11	82.64	79.06	15.62	19.83
1999	0	0	2.13	2.32	80.00	75.11	17.87	22.57
1998	0.19	0.20	3.00	2.20	79.98	76.41	16.83	21.19
Totals	0.10	0.10	2.49	1.97	80.62	76.73	16.79	21.20

CONSUMER Temple/Killeen MSA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
# of Census Tracts	1		5		19		4	
%of AA Households	0.32		19.54		65.74		14.40	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	3.45	2.70	6.90	12.44	79.31	79.22	10.34	5.64

BUSINESS LOANS Temple/Killeen MSA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
# of Census Tracts	1		5		19		4	
% of AA Businesses	5.90		15.61		63.63		14.86	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	3.70	5.24	0	0	74.08	82.88	22.22	11.88

Qualified Investments

NB has initiated lending activities to enhance credit availability to small businesses. In 2000, NB along with

56 other community banks organized the Independent Bankers Capital Fund. This SBIC allows businesses to borrow money from the Small Business Administration at favorable interest rates and terms. The proceeds will be invested as loans to small business operating companies, which are located in the bank's assessment areas as well as the state of Texas. NB has committed to contribute up to 500M. Contributions to date total 66M.

Response to Complaints

NB has received no complaints relating to the bank's performance under the CRA.

Compliance with Fair Lending Laws and Regulations

An analysis of 1999 consumer loans secured by vehicles, as well as a review of public file comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach.

The analysis on this date revealed no basis for the OCC to conduct a comprehensive fair lending examination in connection with this CRA evaluation. The latest fair lending examination was performed in January 2000.