



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 1, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank
Charter Number 14012**

**601 Guadalupe
George West, TX 78022**

**Comptroller of the Currency
San Antonio South Field Office
10101 Reunion Place Blvd., Suite 402
San Antonio, Texas 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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The First National Bank in George West's lending performance reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas. The primary factors supporting the bank's overall rating are as follows:

- A majority of sample loan originations, representing 87% of the number and 82% of the dollar amount, were within the bank's assessment areas.
- The distribution of a sample of loans reflects reasonable penetration among individuals of different income levels and to businesses of different sizes.
- The geographic distribution of sample loans reflects reasonable dispersion throughout the assessment areas.
- The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition and assessment area credit needs.

DESCRIPTION OF INSTITUTION

First National Bank's (FNB) loan portfolio is composed mostly of commercial and residential loan products. The main office is located in George West, Live Oak County, Texas, with branches in Three Rivers, Live Oak County, Texas and Floresville, Wilson County, Texas. The three Automatic Teller Machines are located at each of the branches. The bank is a wholly owned subsidiary of Live Oak Bancshares Corporation Delaware which is a wholly owned subsidiary of Live Oak Bancshares Corporation, George West, Texas. Live Oak Bancshares had assets of \$68 million as of December 31, 2000.

FNB has total assets of \$79 million with total loans of \$57 million, or 72.15% of total assets. The loan portfolio consists of consumer and commercial products as reflected in the following table (information as of June 30, 2001). The previous Community Reinvestment Act (CRA) Performance Evaluation, dated August 14, 1997, reflected a satisfactory rating. There are no legal or other impediments that limit the bank's ability to meet the community's credit needs.

Loan Category	\$ (000)	%
Residential Real Estate Loans	16,417	28.7
Commercial Real Estate Loans	15,815	27.6
Construction, Land Development	5,826	10.2
Subtotal Real Estate Loans	38,058	66.5
Commercial Loans	8,702	15.2
Consumer Loans	8,288	14.5
Agricultural Production/Farmers	2,090	3.7
Other	70	0.1
Total	57,208	100.0

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) consists of the entire county of Live Oak County, including the cities of George West and Three Rivers, which is not in a Metropolitan Statistical Area (MSA). It also includes all of Wilson County, including the city of Floresville, which is in the San Antonio MSA. The AA meets the requirements of the regulation and does not arbitrarily exclude low and-moderate income geographies. Live Oak County consists of four Block Numbering Areas (BNAs), one moderate- and three middle-income. Twenty-three percent of the households are in the moderate-income BNA, while 77% are in the three middle-income BNAs. Wilson County consists of six census tracts, two moderate-, and four middle-income. Thirty-five percent of the households are in the two moderate-income census tracts while 65% are in the four middle-income tracts. The following table reflects additional AA demographics.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA		
<i>Population</i>	Live Oak County	Wilson County
Number of Families	2,734	6,315
Number of Households	3,570	7,577
<i>Geographies</i>		
Number of Census Tracts/BNA	4	6
% Low-Income Census Tracts/BNA	0%	0%
% Moderate-Income Census Tracts/BNA	25%	33%
% Middle-Income Census Tracts/BNA	75%	67%
% Upper-Income Census Tracts/BNA	0%	0%
<i>Median Family Income (MFI)</i>		
1990 MFI for AA	24,585	29,898
2000 HUD-Adjusted MFI	34,700	43,100
2001 HUD-Adjusted MFI	35,800	45,300
<i>Economic Indicators</i>		
Unemployment Rate	2.72%	2.68%
1990 Median Housing Value	49,295	50,290
% of Households Below Poverty Level	22.16%	21.16%

The area's largest employers are Diamond Shamrock and the Federal Bureau of Prisons Correctional Institution in Three Rivers, 10 miles north of George West. The largest employers in George West are the George West I.S.D. and the County government since George West is the county seat.

Interviews with community members in George West and Floresville disclosed information regarding the economy and community credit needs in the assessment areas. Both organizations were business and/or labor groups. The community contact in George West felt the local economy was stable, but dependent on the oil and gas industry. This contact felt small business loans are the largest credit need in the community. The Floresville contact felt their economy was good, with a need for more affordable housing. Lower income individuals are turning to mobile homes while higher priced home construction has been strong for people who commute to San Antonio.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio is more than reasonable and commensurate with its size, competition available resources and the demographics of the AA. The average loan-to-deposit ratio for the last sixteen quarters was 73.54%. This compares favorably to First State Bank, Three Rivers whose ratio over the same time period was 45.58%. It is below The Bank of Alice's ratio of 89.98%. The Bank of Alice's ratios are assisted by the bank's subsidiary, Argrow Credit Corporation (ACC), on a consolidated basis. ACC borrows funds from government agencies and then lends to farmers and ranchers in increments of less than \$100,000.

Institution	Assets (as of 6/30/01)	Average LTD Ratio
The Bank of Alice	131,872,000	89.98%
First State Bank, Three Rivers	70,000,000	45.58%
First National Bank, George West	78,814,000	73.54%

Lending in Assessment Area

A majority of the bank's lending activity is within its assessment area. As illustrated in the following table, 87% of the number and 82% of the dollar amount of sample loans were made in the assessment area. The following table depicts the location of our sample of 60 commercial, consumer and residential loans originated in 2000 and 2001.

TOTAL SAMPLE LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	14	70%	1,315	67%	6	30%	642	33%
Consumer	18	90%	156	93%	2	10%	12	7%
Residential	20	100%	1,592	100%	0	0%	0	0%
Total Reviewed	52	87%	3,063	82%	8	13%	654	18%

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes, given the demographics of the assessment areas.

A sample of 20 residential loans originated in 2000 and 2001 were chosen from Live Oak County. Fourteen home loan purchases, or 100% of originations, were chosen from Wilson County. The tables below show that the bank made residential loans to low and moderate-income families, but at a proportionally lower level compared to the percentage of low income families in the AA. This is primarily attributable to the new home development in the area aimed at higher income individuals. We did note that the bank made home improvement loans to low and moderate-income individuals.

RESIDENTIAL REAL ESTATE Originations - Live Oak County								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21.0		17.1		22.1		39.8	
Sample of loans since prior CRA review	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	10%	6%	5%	2%	20%	20%	65%	72%

RESIDENTIAL REAL ESTATE Originations - Wilson County								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	24.6		20.3		21.8		33.3	
Sample of loans since prior CRA review	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0%	0%	7%	6%	7%	2%	86%	92%

The sample of 20 consumer loans from each AA, originated in 2000 and 2001, reflects that the bank has a good record of consumer loan originations to low and moderate income borrowers.

CONSUMER - Live Oak County								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	25.4		12.6		20.8		41.2	
Sample of loans since prior CRA review	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	35%	25%	15%	4%	20%	9%	30%	62%

CONSUMER - Wilson County								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	27.7		16.4		18.8		37.1	
Sample of loans since prior CRA review	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	15%	11%	35%	24%	20%	11%	30%	54%

Our sample of 21 business loans in Live Oak County and 20 loans in Wilson County shows the bank is doing a good job in the number of loans to smaller businesses. The dollar amount of loans to large businesses is skewed due to one large loan selected in the Live Oak County sample that accounts for 38% of the dollar amount of the sample. One loan in the Wilson County sample of large businesses accounts for 67% of the total sample dollar amount. It is a large loan the bank has partially sold.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES - Live Oak County		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	91.18%	5.43%
% of Bank Loans in AA #	90.48%	9.52%
% of Bank Loans in AA \$	58.58%	41.42%

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES - Wilson County		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	90.36%	4.63%
% of Bank Loans in AA #	85.00%	15.00%
% of Bank Loans in AA \$	28.21%	71.79%

* Of reporting companies, 3.39% of the companies did not respond in Live Oak County and 5.01% did not respond in Wilson County.

Geographic Distribution of Loans

The overall geographic distribution of the sample loans within the AA is reasonable. There are no low- or upper-income BNAs or Census Tracts in the AA. The loan samples referred to in this section are the same ones used in the Lending to Borrowers of Different Incomes and Businesses of Different Sizes.

The sample of residential loans reflects the population of the counties and shows the bank is making loans in the moderate areas.

RESIDENTIAL REAL ESTATE - Live Oak County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied	0		21.5		78.5		0	
Sample of loans since prior CRA review	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
			30%	35%	70%	65%		

RESIDENTIAL REAL ESTATE - Wilson County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied	0		31.7		68.3		0	
Sample of loans since prior CRA review	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
			43%	47%	57%	53%		

The sample of consumer loans reflects that the bank does a good job making loans to customers in the moderate-income levels.

CONSUMER - Live Oak County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0		23		77		0	
Sample of loans since prior CRA review	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
			40%	52%	60%	48%		

CONSUMER - Wilson County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0		35.1		64.9		0	
Sample of loans since prior CRA review	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
			80%	87%	20%	13%		

The sample of business loans reflects that the bank makes loans to small businesses in moderate-income assessment areas. Wilson County's business district is in BNA 9803, a moderate-income BNA, which helps to explain why all of the of business loans are located in the moderate BNAs.

BUSINESS LOANS - Live Oak County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		15.84		84.16		0	
Sample of loans since prior CRA review	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
			48%	23%	52%	77%		

BUSINESS LOANS - Wilson County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		54.94		45.06		0	
Sample of loans since prior CRA review	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
			100%	100%	0%	0%		

Responses to Complaints

The bank has not received any complaints since the last evaluation regarding its performance under CRA.

Fair Lending Review

An analysis of 1997 through 2001 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed as of March 31, 2000.