

PUBLIC DISCLOSURE

November 4, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Lost Pines National Bank
Charter Number: 17111**

**406 Main Street
Smithville, Texas 78957**

**Office of the Comptroller of the Currency
Southwestern District
Austin Field Office
8310 North 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 (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 Lost Pines National Bank (LP), Smithville, Texas, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of November 4, 1999. 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 **Satisfactory.**

- C LP's lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area.
- C The loan-to-deposit (LTD) ratio is satisfactory and averaged 63% since our last examination.
- C A substantial majority of LP's loans are within its assessment area.
- C LP has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and small businesses of different sizes.
- C The geographic distribution of loans is reasonable and consistent with the demographic composition of the assessment area.
- C There have been no complaints with respect to LP's CRA performance.

The following pages further describe LP's CRA performance.

DESCRIPTION OF INSTITUTION

LP is a 38 million (MM) institution located in Smithville, Texas, approximately 60 miles Southeast of Austin, Texas. This bank is 100% owned by Lost Pines Bancshares -Delaware (Delaware), a one bank holding company. Delaware is 100% owned by Lost Pines Bancshares, Inc. (Bancshares) which is located in Smithville. Total assets of Bancshares as of June 30, 1999 were 3,053 thousand (M). In addition to the main office, LP has one additional full service bank office located in Bastrop, Texas. One automatic teller machine (ATM) and drive-in facility are located at each office.

LP's principal focus is to promote economic development in its assessment area through its lending programs and community involvement. LP's primary lending products include residential real estate, commercial-related real estate, and consumer loans. Net loans as of September 30, 1999, comprise 54% of total assets. The following reflects a detailed breakdown of LP's loan portfolio as of September 30, 1999.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Construction	2,286	11.0
RE Farmland	705	3.4
RE Residential (1-4)	7,427	35.7
RE Multi-family Residential	532	2.6
RE Nonfarm Nonresidential	3,398	16.4
Agricultural Production	278	1.4
Commercial and Industrial	2,077	10.0
Consumer Loans	2,958	14.2
Obligations-Political Subdivisions	517	2.4
Other	597	2.9
Total	20,775	100.0

Bank lobby services are provided Monday through Friday at each office. Drive-through services are provided Monday through Saturday at both locations. LP faces primary competition from three area banks and other competitors such as savings and loans, credit unions, and investment brokerage firms. Total

assets of the three competing banks range between 71MM and 185MM. Based on its financial condition, the local economy, product offerings, competition, and prior performance, LP has the ability to meet the various credit needs in its community. LP has a 24-hour telephone audio response system which allows customers to obtain account balance information and transfer funds. ***At the last CRA examination in February 20, 1997, LP's CRA rating was ASatisfactory.*** No legal impediments or other factors hinder the bank's ability to provide credit in its assessment area.

DESCRIPTION OF ASSESSMENT AREA

LP's assessment area includes all of Bastrop County which is located in the Austin-San Marcos Metropolitan Statistical Area (MSA). This area includes the cities of Smithville, Bastrop, Elgin, and smaller communities such as Cedar Creek, Paige, and Red Rock. This area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. Based on 1990 U.S. Census data, Bastrop County has a population of 38M. The assessment area includes three moderate-income tracts and five middle-income tracts. According to the 1990 housing data as provided in the census, there are 16M housing units in the bank's assessment area of which 64% are owner occupied, 18% are renter occupied, and 18% are vacant. The median year built for housing was 1976, with a median value of 53M.

Approximately 28% of the families in the assessment area are considered low-income. Moderate-income families comprise 21% of the population, while middle- and upper-income families comprise the remaining 51%. Approximately 18% of the households are below the poverty level. The local economy is considered very good with an unemployment rate of just over 4%. Primary industries within the assessment area include light manufacturing, commercial real estate construction, health care industry, retail trade, and services. Major employers include Bastrop County, Smithville Independent School District, University of Texas Science Center, Union Pacific Railroad, and Smithville Regional Hospital. Income data from the 1990 census revealed that the weighted-average median family income for this area is 28M. Updated 1999 information indicates that the weighted-average median family income has increased to 55M.

In order to gather more current information on the nature of the community and potential lending opportunities in the assessment area, we contacted one community leader during this examination. This contact is the City Manager for Smithville. This individual mentioned that he was not aware of any unmet credit needs. He further stated that LP is active in the community and responsive to credit needs in the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management is performing satisfactorily in meeting the credit needs of the assessment area, including LMI individuals and areas, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

LP's LTD ratio is satisfactory, given its asset size, financial condition, and lending opportunities in the assessment area. Since the last CRA examination, the LTD ratio has remained fairly stable from 60% on March 31, 1997, to 59% percent on September 30, 1999. The average LTD ratio over the past 11 quarters was 63%, which represents an increase from an average 56% during the previous examination.

This performance is in line with competing banks headquartered in Bastrop County which averaged 60% during the 10 quarters ending June 30, 1999.

In late 1998, LP started a loan program whereby fixed rate mortgage loans are originated by the bank and then sold to Texas Independent Bank (TIB) shortly after funding. Since November 1998, LP originated 22 mortgage loans totaling 2,055M which were sold to TIB. Had these loans remained on the bank's books, the LTD ratio would have been slightly higher.

Lending in the Assessment Area

A substantial majority of the bank's loans are within its assessment area. Using Home Mortgage Disclosure Act (HMDA) information since the last examination and internal reports provided by management, we performed an analysis of mortgage and consumer lending patterns originated within the assessment area.

Our analysis determined that 94% of the number and 91% of the dollar amount of mortgage-related loans were made within the bank's assessment area. In addition, a random sample of 38 consumer loans determined that 82% of the number and 79% of the dollar amount were also made within the assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The loan portfolio reflects a satisfactory distribution of mortgage and consumer loans among individuals of various income levels and a satisfactory dispersion to businesses of different sizes. In order to assess this bank's performance in this criteria, we used HMDA information relative to mortgage loan products originated since the last examination, and a sample of consumer and business loans originated during the same period. Our analysis indicates that LP lends to all applicants, regardless of their income category.

Based on the 1990 census data, low-income families comprise 28% of the assessment area while moderate-income families comprise 21%. Our analysis determined that 23% of mortgage loans and 38% of consumer loans were made to low-income families. Additionally, 24% of mortgage loans and 34% of

consumer loans were made to moderate-income families. In summary, this level of lending to LMI families is considered good in relation to the nature of the community, competition, and available lending opportunities. The table listed below summarizes our analysis of lending activity in the assessment area by different incomes levels.

Loans to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographics	28.26%		21.17%		23.74%		26.83%		100.00%	
# of Families	2,892		2,167		2,430		2,746		10,235	
	#	%	#	%	#	%	#	%	#	%
Mortgage/Home Improvement/ Refinanced Loan Distribution	24	23%	25	24%	22	22%	31	31%	102	100%
Consumer Loan Distribution	10	38%	9	34%	3	12%	4	16%	26	100%
Combined Loan Distribution	34	27%	34	27%	25	20%	35	26%	128	100%

LP originates a satisfactory number of commercial real estate, a vast majority of which have been made to small businesses with revenues less than 1MM. Management continues to focus on providing loans that will enhance the local economy. The chart below reflects the results of our analysis of a sample of 23 commercial real estate loans originated since the last examination.

Loans to Small Businesses										
Revenue Ranges	< \$100M		\$101M -- \$250M		\$251M - \$500M		\$501M -- \$1 MM		> \$1 MM	
	#	%	#	%	#	%	#	%	#	%
Commercial RE	9	39%	10	43%	1	4%	1	4%	2	10%

Geographic Distribution of Loans

The geographic distribution of LP=s loans is reasonable given the demographics of the assessment area, including the location of the population within Bastrop County. Our analysis included all mortgage-related loans and a sample of consumer loans originated since the last examination. Our sample revealed that the geographic distribution of loans does reflect the make-up of the bank=s assessment area.

Of the eight census tracts that are applicable to LP=s assessment area, three tracts or 38% are moderate-income and five tracts or 62% are middle-income. Our loan sample revealed that 56% of the mortgage and 42% of the consumer loans were made within moderate-income census tracts. Such level of performance is not surprising given that most of these loans originated within the boundaries of Smithville which is a moderate-income tract.

The chart below reflects the results of our evaluation of the geographic distribution of mortgage and consumer loans originated within the bank=s assessment area since the last examination.

Geographic Distribution of Loans By Census Tracts					
	Low Income Areas	Moderate Income Areas	Middle Income Areas	Upper Income Areas	Total
Area Demographic Characteristics	0%	38%	63%	0%	100%
Number of Census Tracts	0	3	5	0	52

	#	%	#	%	#	%	#	%	#	%
Mortgage Purchases/Refinance /Home Improvement	0	0%	58	56%	45	44%	0	0%	103	100%
Consumer	0	0%	11	42%	15	58%	0	0%	26	100%
Combined Total	0	0%	69	53%	60	47%	0	0%	129	100%

Response to Complaints

No complaints relating to CRA performance have been received by LP.

Compliance with Fair Lending Laws and Regulations

A fair lending examination was conducted as part of a compliance examination of LP. Our review of consumer loans secured by used vehicles determined that the bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No fair lending violations were identified.