

PUBLIC DISCLOSURE

May 14, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Treaty Oak Bank
RSSD: 646453

101 Westlake Drive
Austin, Texas 78746-5301

Federal Reserve Bank of Dallas
2200 North Pearl Street
Dallas, Texas 75201

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 factors supporting this rating include:

- A substantial majority of small business loans are made in the assessment areas;
- The distribution of loans to businesses of different sizes for both assessment areas is reasonable;
- The net loan-to-deposit ratio is reasonable given the competitive banking environment;
- A reasonable geographic distribution of loans in the Burnet County Assessment Area.

SCOPE OF EXAMINATION

Treaty Oak Bank's (bank) lending performance with respect to the Community Reinvestment Act (CRA) was assessed by analyzing a sample of 56 small business loans totaling \$23.64 million originated by the bank between January 1, 2011 and December 31, 2011. In addition, nine residential Home Mortgage Disclosure Act (HMDA) loans totaling \$3.15 million were reported on the bank's 2011 Loan Application Register; however, only six loans resulted in originations, with even fewer originations in 2010 when there were only two HMDA reportable loan applications that resulted in originations. Therefore, residential real estate loans in 2010 and 2011 provided only limited influence affecting conclusions reached in the evaluation. Similarly, small farm lending accounted for only three percent of the loan portfolio as of December 31, 2011, and is not a significant business line for the bank. In 2011, there were only 39 consumer loan originations.

The evaluation was conducted using the CRA small bank performance standards. Small Bank CRA performance standards evaluate:

- average loan-to-deposit ratio since the last CRA evaluation;
- the overall level of lending within the assessment area;
- the bank's lending to borrowers of different income levels and businesses and farms of different sizes;
- the bank's geographic distribution of loans within its assessment area; and,
- the bank's response to written complaints with respect to CRA performance in the assessment area.

Each standard is viewed as part of an overall picture of the bank's performance in meeting the credit needs of its delineated assessment area.

DESCRIPTION OF INSTITUTION

Treaty Oak Bank, Austin, Texas is a wholly-owned subsidiary of Carlile Bancshares, Inc. (Carlile), Fort Worth, Texas and is affiliated with the Bank of Broadmoor, Colorado Springs, Colorado through common ownership by Carlile Bancshares. In the fall of 2010, Carlile entered into an agreement to purchase Treaty Oak Bank (Legacy-Treaty)¹ and Community State Bank (CSB), both of which were located in Austin, TX. In the first half of 2011, Carlile completed the acquisition of these institutions and merged them on May 20, 2011.

The bank is a full-service retail bank offering agricultural, commercial, interim construction, home mortgage, and consumer loans. The deposit products offered include certificates of deposit, checking, money market, savings, IRA, and NOW accounts. The electronic funds transfer services include direct deposit, debit cards, ATM, pre-authorized ACH deposit, and withdrawal of funds. All branches, except the 35th Street branch, have an on-site ATM.

Branch locations are shown in the following table:

RETAIL BRANCHES			
BRANCH ADDRESS	COUNTY/ INCOME LEVEL	LOBBY HOURS	MOTOR BANK HOURS
Westlake 101 Westlake Drive Austin, TX 78746	Travis Upper	Mon.-Fri. 8:30am – 5pm	Mon.-Fri. 7:30 am – 6 pm Saturday 9am – 1pm
Barton Creek* 2800 Barton Creek Blvd., Austin, TX 78735	Travis Upper	Mon.-Fri. 8:30am – 5pm	Mon.-Fri. 8 am – 5 pm
Ranch Road 620 12128 Ranch Road 620 N Austin, TX 78750	Williamson Upper	Mon.-Fri.8:30am – 5pm	Mon.-Fri. 8 am – 5 pm
Marble Falls* 507 Ranch Road 2147, Marble Falls, TX 78654	Burnet Upper	Mon.-Thur. 9am – 5pm Friday 9am-6pm	Mon.-Thur. 8 am – 5 pm Friday 8am – 6pm
35th Street 1515 W. 35 th St., Bldg. F, Austin, TX 78703	Travis Upper	Mon.-Fri. 9am – 3pm	Mon.-Fri. 8am – 5 pm

*Non-deposit taking ATM

As of December 31, 2012, the bank reported total assets of approximately \$113 million, gross loans of \$42 million, total deposits of \$93.5 million, and a net loan-to-deposit ratio of 44.0%. The following table reflects the loan portfolio mix:

¹ Throughout this evaluation “Legacy-Treaty” refers to Treaty Oak Bank prior to the acquisition by Carlile, “bank” refers to the institution subsequent to the acquisition and merger.

PRODUCT	12/31/11 \$(000's)	% OF LOANS
Real Estate		
1-4 Family Res Construction Lns (03/2008)	682	1.62
Other Const Lns & Land Dev & Other (03/2008)	3,445	8.21
Farm Land	354	0.84
1-4 Family – Revolving	1,998	4.76
1-4 Family Res Secured by First Liens	6,453	15.37
1-4 Family Res Secured by Junior Liens	1,167	2.78
Lns Secured Owner Occupd NonFrm NonRes (03/2008)	7,154	17.04
Lns Secured by Other NonFrm NonRes (03/2008)	5,319	12.67
Total Real Estate	26,572	63.30
Agricultural	912	2.17
Commercial and Industrial	11,693	27.85
Consumer	5,220	12.43
State and Political Subdivisions	0	0.00
Other	4	0.01
Lease Financing	190	0.45
Gross Loans	41,981	100.00

*Percentage may not equal 100 due to rounding.

The bank's ability to meet various credit needs of the community has not been hampered by its capacity to lend, its financial condition and size, product offerings, prior performance, legal impediments, or other factors. Prior to the acquisition, CSB received a Satisfactory rating on its last CRA performance evaluation performed by the Federal Deposit Insurance Corporation (FDIC) dated March 10, 2008. Legacy-Treaty received a Satisfactory rating on its last CRA performance evaluation dated June 28, 2010 performed by the FDIC.

DESCRIPTION OF ASSESSMENT AREAS

The bank's assessment areas consist of three counties, which are contiguous. Travis and Williamson Counties, which are part of the Austin-Round Rock-San Marcos Metropolitan Statistical Area (MSA), make up one assessment area. Burnet County, which is a non-MSA county, makes up the second assessment area. The greatest weight is placed on the bank's activities in the Travis and Williamson Counties assessment area. This assessment area contains the majority of the bank's deposits, loans, and branches.

Demographic and economic information impacting the bank's performance context are discussed in each assessment area. Information was obtained from publicly available sources including the U.S. Commerce's Bureau of the Census, 2000; the U.S. Department of Housing and Urban Development; the U.S. Department of Labor; Texas Workforce Commission; and Dun & Bradstreet.

DESCRIPTION OF TRAVIS AND WILLIAMSON COUNTIES ASSESSMENT AREA

The bank's assessment area consists of Travis and Williamson Counties, a portion of the Austin-Round Rock-San Marcos Metropolitan Statistical Area (MSA). The 2010 estimated population for the assessment area is 1.5 million. The assessment area's population grew 36.2% between

2000 and 2010, with Williamson County growing 69.1% during that time period. The city of Austin, population 790,390, is the Travis County seat and accounts for 77.2% of the population in Travis County. Other municipalities in Travis County include Pflugerville, Lakeway, and Lago Vista. Williamson County includes the cities of Round Rock, Cedar Park, and Leander. The city of Georgetown is the Williamson County seat, which has a population of 47,400.

As of the assessment date, the bank operated four retail branches in the assessment area. The assessment area branches contained \$88 million in deposits at June 30, 2011, which accounted for 78.7% of the bank's total deposits. The bank ranks 29th in deposit market share out of 57 FDIC-insured financial institutions operating in the Travis and Williamson Counties banking market. The deposits in the bank's four branches represented 0.38% of the total deposits in FDIC-insured financial institutions in the market. Wells Fargo Bank, NA dominates the market, with 20.5% of total deposits, followed by Bank of America, NA; JP Morgan Chase, NA; and Compass Bank. In Travis County, the bank ranks 23rd out of 48 insured institutions, with 0.44% market share, and in Williamson County, the bank ranks 32nd of 34 institutions, with 0.14% market share of deposits.

The following table details selected characteristics of the assessment area.

Assessment Area Demographics

Assessment Area: Travis and Williamson Counties

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	20	8.8	14,509	5.7	3,513	24.2	48,208	19.0
Moderate-income	56	24.7	55,049	21.7	7,599	13.8	44,564	17.6
Middle-income	86	37.9	98,144	38.7	4,064	4.1	56,845	22.4
Upper-income	63	27.8	85,617	33.8	1,436	1.7	103,702	40.9
Unknown-income	2	0.9	0	0.0	0	0.0	0	0.0
Total Assessment Area	227	100.0	253,319	100.0	16,612	6.6	253,319	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	34,714	6,874	3.0	19.8	26,408	76.1	1,432	4.1
Moderate-income	100,211	38,367	16.7	38.3	57,880	57.8	3,964	4.0
Middle-income	166,535	92,241	40.2	55.4	66,830	40.1	7,464	4.5
Upper-income	124,746	92,032	40.1	73.8	26,900	21.6	5,814	4.7
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	426,206	229,514	100.0	53.9	178,018	41.8	18,674	4.4
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	%
Low-income	3,065	4.0	2,664	3.8	198	5.3	203	5.8
Moderate-income	12,090	15.6	10,735	15.3	689	18.4	666	19.1
Middle-income	29,341	37.9	26,640	37.9	1,403	37.5	1,298	37.1
Upper-income	32,951	42.5	30,189	43.0	1,444	38.6	1,318	37.7
Unknown-income	57	0.1	45	0.1	3	0.1	9	0.3
Total Assessment Area	77,504	100.0	70,273	100.0	3,737	100.0	3,494	100.0
Percentage of Total Businesses:				90.7		4.8		4.5
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	%
Low-income	8	1.0	8	1.0	0	0.0	0	0.0
Moderate-income	108	13.3	106	13.3	2	28.6	0	0.0
Middle-income	404	49.9	401	50.1	3	42.9	0	0.0
Upper-income	289	35.7	285	35.6	2	28.6	2	100.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	809	100.0	800	100.0	7	100.0	2	100.0
Percentage of Total Farms:				98.9		.9		.2

Based on 2010 D & B information according to 2000 Census Boundaries.

Income Characteristics: As of the 2000 census, the assessment area contained 227 census tracts, with 181 in Travis County and 46 in Williamson County. There are 20 low-income, 56 moderate-income, 86 middle-income, and 63 upper-income census tracts in the assessment area. Two census tracts consisting of the Bergstrom Air Force Base and the Austin State School did not report income. Within the bank's assessment area, the 20 low-income census tracts are all located in Travis County. These census tracts are mostly in the central part of the county, in the city of Austin. One of the bank's branches borders a low-income census tract near this area, while the other two branches are located in the upper-income, extremely affluent area of western Travis County. Williamson County does not have any low-income census tracts and only five moderate-income census tracts. The bank branch located in Williamson County is in the far southwestern portion of the county, which consists completely of middle- and upper-income census tracts. The moderate-income census tracts are all located on the eastern side of Interstate Highway 35, which divides Williamson County in half.

In the assessment area, approximately 19% of families are low-income, 17.6% are moderate-income, 22.4% are middle-income, and 40.9% are upper-income. These percentages are similar to the state-wide income levels. Within the assessment area, 5.7% of families live in low-income census tracts of which 24.2% are below the poverty level.

The following table depicts the referenced income level ranges:

INCOME LEVEL	2011 AUSTIN-ROUND ROCK- SAN MARCOS MSA
Median Income	\$74,900
Low-income	\$0 > \$37,450
Moderate-income	\$37,450 > \$59,920
Middle-income	\$59,920 > \$89,880
Upper-income	\$89,880 and up

Twenty two percent of families live in moderate-income census tracts, 38.7% in middle-income census tracts, and 33.8% in upper-income census tracts. Only 6.6% of families within the assessment area are below the poverty level, which is well below the state average of 12.0%.

Housing: There are 426,206 housing units in the assessment area. Approximately 53.9% are owner-occupied, 41.8% are rental units, and 4.4% are vacant. The median housing value in the assessment area was \$126,181, which is 62.2% higher than the median housing value of the state of Texas at \$77,800. The median age of housing in the assessment area is 18 years old while the median age of housing for the state is 23 years old.

Labor, Employment, and Economic Characteristics: According to Dun and Bradstreet data, there are 77,504 businesses in the assessment area. Ninety-one percent reported annual revenues of less than or equal to \$1 million, of which only 4.0% are located in low-income census tracts and 15.6% are located in moderate-income census tracts. The substantial majority of businesses are located in middle- and upper-income census tracts. There were 809 farms reported in the assessment area with only 1.0% in low-income tracts and 13.3% located in moderate-income

census tracts. Fifty percent are located in middle-income census tracts and 35.7% are in the upper-income census tracts. Over the past decade, Austin has become a microcosm for the technology industry with one of the largest employers being Dell, Inc. Other major employers in the assessment area are located in Travis County and include the State of Texas, the University of Texas, and Seton Family of Hospitals.

The following table provides perspective on current unemployment rates.

Unemployment Rates for 2011 (Not Seasonally Adjusted)	
Area	2011
Travis County	6.6
Williamson County	6.8
State of Texas	7.9
United States	8.9

Community Contacts and Credit Needs: Contact was made with a community leader working in economic development. The contact stated that the credit needs in the community include access to capital for start-up businesses. In addition, there are opportunities for financial institutions to participate in reinvestment activities such as providing general services including medical care and education to address the growing low- and moderate-income (LMI) population.

DESCRIPTION OF BURNET COUNTY ASSESSMENT AREA

The bank's second assessment area consists of Burnet County, which is part of the Texas Non-metropolitan Statistical Area (MSA). The 2010 estimated population for the assessment area is approaching 42,750. The assessment area population grew 25.2% between 2000 and 2010. The city of Burnet, population 5,987, is the county seat. Other municipalities in the county include Marble Falls and Bertram.

As of the assessment date, the bank operated one retail branch in the assessment area. The Burnet assessment area branch contained \$16.4 million in deposits at June 30, 2011, which accounts for 14.7% of the bank's total deposits.

The bank ranks 10th in deposit market share out of 14 FDIC-insured financial institutions operating in the Burnet County banking market. The deposits in the bank's one branch represented only 2.5% of the total deposits in FDIC-insured financial institutions. American Bank of Texas, NA dominates the market, with 23.2% of total deposits, followed by First State Bank of Burnet; International Bank of Commerce; and Wells Fargo Bank, NA.

The following table details selected characteristics of the assessment area.

Assessment Area Demographics

Assessment Area: Burnet County

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,297	13.4
Moderate-income	0	0.0	0	0.0	0	0.0	1,511	15.6
Middle-income	3	37.5	4,264	44.0	471	11.0	1,981	20.5
Upper-income	5	62.5	5,417	56.0	295	5.4	4,892	50.5
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	8	100.0	9,681	100.0	766	7.9	9,681	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0
Middle-income	7,365	4,280	41.6	58.1	1,881	25.5	1,204	16.3
Upper-income	8,568	6,018	58.4	70.2	954	11.1	1,596	18.6
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	15,933	10,298	100.0	64.6	2,835	17.8	2,800	17.6
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	1,431	56.3	1,289	55.2	56	62.9	86	72.3
Upper-income	1,113	43.8	1,047	44.8	33	37.1	33	27.7
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	2,544	100.0	2,336	100.0	89	100.0	119	100.0
Percentage of Total Businesses:				91.8		3.5		4.7
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	22	23.2	21	22.3	1	100.0	0	0.0
Upper-income	73	76.8	73	77.7	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	95	100.0	94	100.0	1	100.0	0	.0
Percentage of Total Farms:				98.9		1.1		.0

Based on 2010 D&B information according to 2000 Census Boundaries.

Income Characteristics: As of the 2000 census, the assessment area contained eight census tracts which consist of three middle-income and five upper-income census tracts. The three middle-income census tracts are located within the cities of Burnet, Marble Falls, and Granite Shoals. The upper-income census tracts are the more rural areas of the county. There are no low- or moderate-income census tracts in the Burnet County assessment area.

In the assessment area, approximately 13.4% of families are low-income, 15.6% are moderate-income, 20.5% are middle-income, and 50.5% are upper-income. Within the assessment area, 44.0% of families live in middle-income census tracts and 56.0% live in upper-income census tracts. Only 7.9% of families within the assessment area are below the poverty level.

The following table depicts the referenced income level ranges:

INCOME LEVEL	2011 STATE NONMETROPOLITAN
Median Income	\$48,600
Low-income	\$0 <\$24,300
Moderate-income	\$24,300<\$38,880
Middle-income	\$38,880<\$58,320
Upper-income	\$58,320 and up

Housing: There are 15,933 housing units in the assessment area. Approximately 64.6% are owner-occupied, 17.8% are rental units, and 17.6% are vacant. The median housing value in the assessment area was \$85,942, which is 10.5% higher than the median housing value of the state of Texas at \$77,800. In addition, the affordability ratio of homes in the assessment area is lower than that of the State and other non-metropolitan areas. The median age of housing in the assessment area is 22 years old while the median age of housing for the state is 23 years old.

Labor, Employment, and Economic Characteristics: Dun and Bradstreet data reported 2,544 businesses in the assessment area. Ninety-two percent reported annual revenues of less than or equal to \$1 million, of which 55.2% are located in the middle-income census tracts and 44.8% in upper-income census tracts. There were only 95 farms reported in the assessment area with 23% and 77% reported in middle- and upper-income census tracts. Historically, agriculture was a primary economic base; however, tourism has now become a major part of the Burnet County economy and provides many opportunities for boating, fishing, and camping. To support tourism, the top industries in Burnet County are restaurants, parks, and recreational activities. Major employers in Burnet County include the Burnet Consolidated Independent School District, Burnet County government, Seton Highland Lakes Hospital, and the Texas Department of Criminal Justice substance abuse facility. The retirement population in Burnet County is almost double that of the State of Texas.

The following table provides perspective on current unemployment rates.

Unemployment Rates for 2011 (Not Seasonally Adjusted)	
Area	2011
Burnet County	6.2
State of Texas	7.9
United States	8.9

Community Contacts and Credit Needs: Contact was made with community leaders working with the City of Marble Falls and in areas of economic development. These contacts stated that the credit needs in the community include affordable housing and more sophisticated lending products which can provide greater access to capital.

OVERALL CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERA

LOAN-TO-DEPOSIT RATIO

The general purpose of CRA is to encourage banks to meet the credit needs in their assessment areas while operating in a safe and sound manner. To gain an understanding of the bank’s lending activity, the net loan-to-deposit (LTD) ratio is used as a measure of credit demand in the assessment areas and an indicator of the bank’s willingness to meet the community’s demand for credit.

The bank’s net LTD ratio is considered reasonable given the bank’s size, financial condition, the credit needs of the assessment areas, and the competitive local banking environment. As of December 31, 2011, the net LTD ratio was 44.0%, and the quarterly average since the previous evaluation was 45.0%.

To better understand the bank’s performance in relation to its assessment areas, a comparison of similarly situated local banks was performed. These banks were chosen for analysis based on their proximity, similar size, and structure. As noted, the bank’s LTD ratios are similar to its peers and reflect favorably upon the bank’s efforts to meet the credit needs of its community.

BANK	COUNTY	TOTAL ASSETS IN THOUSANDS 12/31/2011	LTD RATIO 12/31/2011	QUARTERLY* AVERAGE LTD RATIO
Treaty Oak Bank Austin, TX	Travis	113,265	44.0%	45.0%
Bank of Texas Austin, TX	Travis	77,920	38.2%	60.5%
First Texas Bank Round Rock, TX	Williamson	182,258	47.9%	56.7%
First State Bank Burnet, TX	Burnet	205,399	42.5%	51.3%

*Based on 16 quarters since the last CRA performance evaluation.

LENDING IN ASSESSMENT AREAS

A substantial majority of the bank’s loans reviewed were originated inside its assessment areas. Of the small business loans sampled, 91.1% of the number and 96.5% of the dollar volume were made within the assessment areas. This level of lending inside the assessment areas indicates the bank is serving the credit needs of its assessment areas.

The remaining analyses will be based on loans made inside the bank’s assessment areas.

LENDING TO BUSINESSES OF DIFFERENT SIZES

The distribution of commercial lending based on revenue levels of the businesses reflects a reasonable penetration among businesses of different sizes. To determine the bank's performance, the bank's lending is compared to the assessment area demographics. To obtain a sense of loan demand, the bank's lending is compared to the aggregate data of larger banks that are required to report lending data annually. Overall, the bank does a good job in making loans to small businesses and for smaller dollar amounts.

Performance context issues in the separate assessment areas determined the overall conclusion. Data supporting this analysis can be seen in detail under the separate assessment area discussions.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of commercial loans by the income level of geographies is poor. There are no LMI tracts in the Burnet County assessment area, so this rating is based primarily on the Travis and Williamson Counties assessment area. The majority of the bank's loans were originated in middle- and upper- income census tracts and only four, or 9.8% in moderate-income census tracts. There were no loans originated in low-income census tracts. This is below the demographics, and significantly below the aggregate specifically in Travis County, where the majority of all LMI tracts are located. Aggregate lending is also below the demographics in LMI tracts. Loans were generally made in close proximity to the bank's branches and there were no conspicuous gaps or anomalies in the lending patterns. The bank realizes their branching structure has made it more difficult to reach some of the LMI areas in the assessment areas and it is actively pursuing business opportunities in those areas. The bank is also involved in activities that benefit LMI people and promote small businesses. In addition, the bank has provided contributions to organizations that benefit LMI people. Data supporting this analysis can be seen in detail under the separate assessment area discussions.

RESPONSE TO COMPLAINTS

There were no complaints related to CRA during the review period. Consequently, the bank's performance in responding to complaints was not considered in evaluating its overall CRA performance.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. Established policies and procedures are designed to ensure ongoing compliance with applicable laws and regulations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA BY ASSESSMENT AREAS

TRAVIS AND WILLIAMSON COUNTIES ASSESSMENT AREA

LENDING TO BUSINESSES OF DIFFERENT SIZES

The distribution of loans reviewed based on the revenue level of businesses is reasonable. The revenue of businesses was compared to area demographics. For contextual purposes, the bank's small business lending was compared to the performance of the aggregate of larger banks that are required to report small business lending data to approximate loan demand. Smaller banks such as Treaty Oak Bank are not required to report this data. Fifty-nine percent of loans in the assessment area were originated to small businesses with gross annual revenues of \$1 million or less. Although below the 91% of businesses in the assessment area considered as small businesses, it compares favorably to aggregate data. Aggregate data, which is reported by large banks, reflects that only 45.9% of all CRA small business loans were made to small businesses with gross annual revenues of \$1 million or less. In addition, the bank originated 58.5% of loans to businesses with revenues of \$1 million or less.

Another way to gauge the bank's small business lending performance is to review the data by loan amount. Small businesses typically require smaller dollar credits. In this regard, it is noted that 19.5% of the bank's commercial loans were made in loan amounts of \$250,000 or less and 36.6% were for amounts \$100,000 or less. In comparison, the aggregate lenders made 95.0% of their loans in amounts of \$100,000 or less. While the aggregate outperformed the bank in providing small dollar amount loans, the bank's performance is still reasonable given the current economic and banking environment.

Overall, the bank did a satisfactory job in meeting the needs of small businesses.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of loans reviewed by the income level of geographies within the assessment area is poor. There were no loans originated in the low-income census tracts and only 9.8% in moderate-income census tracts. This is significantly below the demographics of the 4.0% and 15.6% of businesses located in the LMI census tracts. In addition, the aggregate banks originated 3.2% and 13.1% of loans to businesses located in LMI census tracts, which is only slightly below the demographics. Loans were generally made in close proximity to the bank's branches and there were no conspicuous gaps or anomalies in the lending patterns; however, it would be expected for the bank to have more adequately penetrated the LMI area, considering one of their branches is adjacent to an LMI tract. In an effort to better serve those areas, the bank is involved in community organizations including: serving on the Access to Capital Committee with the Greater Austin Hispanic Chamber of Commerce; and volunteering with the Texas Women in Business and with BiGAUSTIN, a micro-lender organization specializing in providing counseling services to start-up and minority-owned businesses. In addition, bank

employees teach financial literacy classes at area schools, which are predominately LMI students.

BURNET COUNTY ASSESSMENT AREA

LENDING TO BUSINESSES OF DIFFERENT SIZES

The distribution of loans reviewed based on the revenue level of businesses is reasonable. For contextual purposes, the bank's small business lending was compared to the performance of the aggregate of larger banks that are required to report small business lending data to approximate loan demand. Smaller banks such as Treaty Oak Bank are not required to report this data. Seventy percent of loans in the assessment area were originated to small businesses with gross annual revenues of \$1 million or less. This is below the 91.8% of businesses in the assessment area considered as small businesses; however, the bank's lending compares favorably to aggregate data which reflects that only 54.9% of all CRA small business loans were made to small businesses with gross annual revenues of \$1 million or less. In addition, the bank originated 30.0% of loans to businesses with revenues less than \$100,000 further demonstrating their commitment to meeting the small business needs of the area.

As mentioned earlier, small businesses typically require smaller dollar credits. In this regard, it is noted that 20% of the bank's commercial loans were made in loan amounts of \$250,000 or less and 60% were for amounts less than \$100,000. Further, all loans in the sample were for less than \$500,000. In comparison, the aggregate lenders made 94.6% of their loans in amounts of \$100,000 or less. While the aggregate outperformed the bank in making small dollar amount loans, the bank's performance is still reasonable given the current economic and banking environment.

GEOGRAPHIC DISTRIBUTION OF LOANS

Because the bank's assessment area is comprised solely of middle and upper-income census tracts, no meaningful analysis could be conducted for this category. However, of the sampled loans, 60% were originated to businesses located in middle-income census tracts, and 40% were in upper-income census tracts. Further, loans were generally made in close proximity to the bank's branch and there were no conspicuous gaps or anomalies in the lending patterns. The aggregate lending was similar with 48.7% and 47.2% of loans originated in middle and upper-income census tracts. The aggregate data showed 4.1% of loan originations census tracts with an unknown income level.

APPENDIX A

Lending Tables for Travis and Williamson County Assessment Area

Small Business Loan Distribution Table

Assessment Area: Travis and Williamson Counties

Income Categories	SMALL BUSINESS				SMALL FARM			
	#	%	\$(000s)	%	#	%	\$(000s)	%
	By Tract Income							
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate	4	9.8%	6,740	31.1%	0	0.0%	0	0.0%
Low/Moderate Total	4	9.8%	6,740	31.1%	0	0.0%	0	0.0%
Middle	10	24.4%	5,988	27.6%	0	0.0%	0	0.0%
Upper	27	65.9%	8,969	41.3%	0	0.0%	0	0.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	41	100.0%	21,697	100.0%	0	0.0%	0	0.0%
	By Revenue							
Total \$1 Million or Less	24	58.5%	9,637	44.4%	0	0.0%	0	0.0%
Over \$1 Million	11	26.8%	9,589	44.2%	0	0.0%	0	0.0%
Not Known	6	14.6%	2,470	11.4%	0	0.0%	0	0.0%
Total	41	100.0%	21,697	100.0%	0	0.0%	0	0.0%
	By Loan Size							
\$100,000 or less	15	36.6%	492	2.3%	0	0.0%	0	0.0%
\$100,001 - \$250,000	8	19.5%	1,293	6.0%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	12	29.3%	6,980	32.2%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	6	14.6%	12,932	59.6%	0	0.0%	0	0.0%
Total	41	100.0%	21,697	100.0%	0	0.0%	0	0.0%
	By Loan Size and Revenue \$1 Million or Less							
\$100,000 or less	9	37.5%	390	4.0%	0	0.0%	0	0.0%
\$100,001 - \$250,000	5	20.8%	754	7.8%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	7	29.2%	3,500	36.3%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	3	12.5%	4,993	51.8%	0	0.0%	0	0.0%
Total	24	100.0%	9,637	100.0%	0	0.0%	0	0.0%

Peer Group CRA Loan Distribution Table

Small Business Aggregate Lenders: Travis and Williamson Counties

	SMALL BUSINESS				SMALL FARM			
	#	%	\$(000S)	%	#	%	\$(000S)	%
	By Tract Income				By Tract Income			
Low	1,048	3.2 %	37,688	3.8 %	1	0.5 %	20	0.2 %
Moderate	4,250	13.1 %	149,516	15.0 %	41	18.8 %	3,470	31.5 %
<i>Low/Moderate Income</i>	5,298	16.3 %	187,204	18.7 %	42	19.3 %	3,490	31.7 %
Middle	11,531	35.4 %	354,418	35.5 %	104	47.7 %	5,930	53.9 %
Upper	15,245	46.9 %	450,538	45.1 %	71	32.6 %	1,579	14.4 %
Unknown	9	0.0 %	412	0.0 %	0	0.0 %	0	0.0 %
Tract Unknown	456	1.4 %	5,853	0.6 %	1	0.5 %	4	0.0 %
Total	32,539	100%	998,425	100%	218	100%	11,003	100%
	By Revenue				By Revenue			
Total \$1 Million or Less	14,926	45.9 %	402,436	40.3 %	154	70.6 %	8,631	78.4 %
	By Loan Size				By Loan Size			
\$100,000 or Less	30,906	95.0 %	407,516	40.8 %	189	86.7 %	3,820	34.7 %
\$100,001 - \$250,000	803	2.5 %	139,419	14.0 %	18	8.3 %	2,997	27.2 %
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	830	2.6 %	451,490	45.2 %	11	5.0 %	4,186	38.0 %
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
Total	32,539	100%	998,425	100%	218	100%	11,003	100%

APPENDIX B

Lending Tables for Burnet County Assessment Area

Small Business Loan Distribution Table

Assessment Area: Burnet County

Income Categories	SMALL BUSINESS				SMALL FARM			
	#	%	\$(000s)	%	#	%	\$(000s)	%
	By Tract Income							
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Low/Moderate Total	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Middle	6	60.0%	369	32.7%	0	0.0%	0	0.0%
Upper	4	40.0%	759	67.3%	0	0.0%	0	0.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Tract Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	10	100.0%	1,128	100.0%	0	0.0%	0	0.0%
	By Revenue							
Total \$1 Million or Less	7	70.0%	803	71.2%	0	0.0%	0	0.0%
Over \$1 Million	1	10.0%	25	2.2%	0	0.0%	0	0.0%
Not Known	2	20.0%	300	26.6%	0	0.0%	0	0.0%
Total	10	100.0%	1,128	100.0%	0	0.0%	0	0.0%
	By Loan Size							
\$100,000 or less	7	70.0%	308	27.3%	0	0.0%	0	0.0%
\$100,001 - \$250,000	2	20.0%	350	31.0%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	1	10.0%	471	41.7%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	10	100.0%	1,128	100.0%	0	0.0%	0	0.0%
	By Loan Size and Revenue \$1 Million or Less							
\$100,000 or less	5	71.4%	183	22.7%	0	0.0%	0	0.0%
\$100,001 - \$250,000	1	14.3%	150	18.7%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	1	14.3%	471	58.6%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	7	100.0%	803	100.0%	0	0.0%	0	0.0%

Peer Group CRA Loan Distribution Table

Small Business Aggregate Lenders: Burnet County

	SMALL BUSINESS				SMALL FARM			
	#	%	\$(000S)	%	#	%	\$(000S)	%
	By Tract Income				By Tract Income			
Low	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
Moderate	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
<i>Low/Moderate Income</i>	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
Middle	474	48.7 %	22,715	69.4 %	13	39.4 %	842	38.0 %
Upper	460	47.2 %	9,773	29.8 %	20	60.6 %	1,376	62.0 %
Unknown	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
Tract Unknown	40	4.1 %	253	0.8 %	0	0.0 %	0	0.0 %
<i>Total</i>	<i>974</i>	<i>100%</i>	<i>32,741</i>	<i>100%</i>	<i>33</i>	<i>100%</i>	<i>2,218</i>	<i>100%</i>
	By Revenue				By Revenue			
Total \$1 Million or Less	535	54.9 %	17,750	54.2 %	26	78.8 %	1,645	74.2 %
	By Loan Size				By Loan Size			
\$100,000 or Less	921	94.6 %	13,552	41.4 %	27	81.8 %	494	22.3 %
\$100,001 - \$250,000	27	2.8 %	4,522	13.8 %	3	9.1 %	595	26.8 %
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	26	2.7 %	14,667	44.8 %	3	9.1 %	1,129	50.9 %
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0 %	0	0.0 %	0	0.0 %	0	0.0 %
<i>Total</i>	<i>974</i>	<i>100%</i>	<i>32,741</i>	<i>100%</i>	<i>33</i>	<i>100%</i>	<i>2,218</i>	<i>100%</i>

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small, relatively permanent statistical subdivision of a county. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts average about 4,000 inhabitants, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to the population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All agencies have adopted the following language: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- i. Low-or moderate-income geographies;
- ii. Designated disaster areas; or
- iii. Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a) Rates of poverty, unemployment, and population loss; or
 - b) Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include

non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of the applicants; the amount of loan requested; and the disposition of the application (for example, approved, denied, or withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors (for example, geographic distribution and borrower distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.