



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

August 17, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Commercial National Bank of Brady
Charter Number 8573**

**105 East Second Street
Brady, TX 76825**

**Comptroller of the Currency
San Antonio North Field Office
10001 Reunion Place, Suite 250
San Antonio, TX 78216**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with the 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.

TABLE OF CONTENTS

INSTITUTION'S CRA RATING	1
DESCRIPTION OF INSTITUTION.....	1
DESCRIPTION OF ASSESSMENT AREAS	2
CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....	4

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

Lending performance for Commercial National Bank (CNB) is satisfactory given its size, financial condition, and known credit needs of its assessment area (AA).

- CNB's lending performance meets the standard for satisfactory performance. The bank's loan-to-deposit (LTD) ratio has averaged 58% during the evaluation period, exceeding the local peer bank average of 53%.
- A substantial majority of CNB's loans, 89% of the number and 84% of the dollar volume, are in the bank's AA.
- CNB's distribution of loans to individuals of varying incomes and to businesses and farms of different sizes meets the standard for satisfactory performance, given the demographics of the AA.
- The geographic distribution of loans in CNB's AA exceeds the standard for satisfactory performance.
- There have been no complaints with respect to CNB's performance under the Community Reinvestment Act (CRA) since the July 2004 Performance Evaluation.

DESCRIPTION OF INSTITUTION

CNB is a \$104 million rural community bank located in Brady, Texas. Brady, the county seat of McCullough County, is located approximately 115 miles northwest of Austin. The bank operates one main office, a drive-through facility, a temporary location in San Saba, Texas, and one onsite automatic teller machine (ATM).

CNB offers full banking services that include consumer, residential, small business, and small farm loan products. Customers are provided 24-hour banking service through TeleBank and TelePC Banking. TeleBank is a telephone audio response system that allows customers to obtain account balance information and transfer funds between accounts. TelePC is a software-based computer system that gives customers the same level of access as TeleBank using their home computers.

The bank's primary competition includes another locally owned bank and one Federal Land Bank office. There also a number of small finance companies operating within the community. CNB has identified its primary focus to promote economic development both in Brady and in McCullough County through its lending programs and active community involvement.

As of June 30, 2009, CNB had total assets of \$104 million with 48% centered in the loan portfolio. The bank's primary loan products include agricultural, commercial, residential, and consumer loans. The chart on the following page details a breakdown of CNB's loan portfolio as of August 4, 2009.

Loan Type	Dollar Amount (000's)	% of Total Loans
Agricultural Loans	4,671	9.27
Commercial & Industrial	3,547	7.04
Loans To Individuals	7,246	14.37
Municipals	630	1.25
Non-Accrual Loans	404	0.80
Real Estate Agricultural	8,056	15.98
Real Estate Commercial	7,487	14.85
Real Estate Construction	560	1.11
Real Estate Consumer	17,753	35.22
Total	50,354	100.00

Bank lobby and drive-through services are provided Monday through Friday. Drive-through service is also available on Saturdays. CNB has no minimum loan requirement in place. Based on its financial condition, the local economy, product offerings, competition, and prior performance, CNB has the ability to meet the various credit needs in its community. The bank was rated “Outstanding” at its last CRA examination on July 6, 2004. No legal impediments or other factors hinder CNB’s ability to provide credit in its AA.

ASSESSMENT AREAS

CNB has identified two AAs. These include McCullough county and the recent addition of San Saba County as a result of recently adding a branch in San Saba Texas.

DESCRIPTION OF MCCULLOUGH COUNTY

CNB has designated all of McCullough as its AA. Principal communities located in the AA include the City of Brady, and the smaller surrounding communities of Melvin, Voca, Rochelle, and Lohn. Specific demographic data for this area is listed on the following page.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	2,279
Number of Households	3,288
<i>Geographies</i>	
Number of Census Tracts/BNA	3
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	34%
% Middle-Income Census Tracts/BNA	33%
% Upper-Income Census Tracts/BNA	33%
<i>Median Family Income (MFI)</i>	
2001 HUD-Adjusted MFI	\$36,100
2004 HUD-Adjusted MFI	\$36,380
2009 HUD-Adjusted MFI	\$32,067
<i>Economic Indicators</i>	
Unemployment Rate	3%
2009 Median Housing Value	\$45,333
% of Households Below Poverty Level	23%

BNA = Block Numbering Area

HUD = Department of Housing and Urban Development

The bank's AA is comprised of three contiguous census tracts. This area meets the requirements of the regulation and does not arbitrarily exclude any low- and/or moderate-income (LMI) geographies. A further description of the AA is presented on the following page.

There are no low-income census tracts within the AA. With 5,500 of the county's 8,200 residents, the City of Brady is the most populous census tract. Based on the 2000 census, the central district of the City of Brady is located in a moderate-income census tract, with the majority of rural portions classified as upper-income. Upper and middle-income areas in the county divide the town of Melvin. The census tract that includes Voca is designated as an upper-income area, and the census tract surrounding Lohn and Rochelle are middle-income areas.

Approximately 31% of the families in the AA are considered low-income. Moderate-income families approximate 16% of the population, while middle- and upper-income families comprise the remaining 53%. There are 4,184 housing units in the AA, of which 57% are owner-occupied, 21% renter-occupied and 22% vacant. Local estimates indicate that 40% of the vacant units are uninhabitable. On average, housing stock is 40-years old. Major area employers include Brady ISD, Heartland Rig International, Heart of Texas Memorial Hospital, Wal-Mart, and the emerging sand mine operations.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted a County Commissioner and one community leader during this examination. Both communicated that the local banks are active in the community and there were no known unmet credit needs in the community.

DESCRIPTION OF SAN SABA COUNTY

San Saba County is comprised of two contiguous census tracts. This area meets the requirement of the regulation and does not arbitrarily exclude any low- and/or moderate-income (LMI) geographies. Both census tracts are designated middle-income.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	1,629
Number of Households	2,290
<i>Geographies</i>	
Number of Census Tracts/BNA	2
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
2008 HUD-Adjusted MFI	\$35,870
2009 HUD-Adjusted MFI	\$35,870
<i>Economic Indicators</i>	
Unemployment Rate	1.5%
2009 Median Housing Value	\$56,369
% of Households Below Poverty Level	15%

BNA = Block Numbering Area

HUD = Department of Housing and Urban Development

The major employers are the state and the city. Major local products and services include pecan farming and the local livestock auction barn. San Saba County is located approximately 105 miles northwest of Austin. The San Saba branch offers similar products and services to the main bank location. Because the branch is slightly more than a year old, we will not be including loan data or community contacts from this AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has been successful in meeting the credit needs of its AA, including LMI individuals, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

CNB's LTD ratio is good, given its asset size, financial condition, and lending opportunities in the AA. Since the last CRA examination, the LTD ratio has decreased slightly from 58% at July 16, 2004, to 52% at August 17, 2009; however, the average LTD ratio over the past 21 quarters was 58% and is above the local peer average. The average LTD ratio of three similarly situated banks headquartered in the local area was 55% during this same time period. The asset size and LTD ratio for CNB and its competing banks are listed on the following page.

Institution	Assets as of 6/30/09*	Average LTD Ratio%**
Llano National Bank	103MM	68.58
Brady National Bank	83MM	69.92
City National Bank – San Saba	55MM	25.03
Local Peer Average		54.51
Commercial National Bank	104MM	57.98

*Asset sizes of institutions are in thousands (000's)

**The average LTD ratio is based on the period between September 2004 and August 2009.

Lending in Assessment Area

A substantial majority of the bank's loans are made within its AA. In order to assess performance for these criteria, we reviewed a sample of 32 consumer, 26 residential, and 29 agricultural loans originated during 2007 through August 2009. Our analysis determined that 89% of the number and 84% of the dollar amount of our sampled loans were made within the AA. A summary of our sample is listed below.

TOTAL LOANS REVIEWED								
	In Assessment Area				Out Of Assessment Area			
LOAN TYPE	#	%	\$	%	#	%	\$	%
Consumer	30	94	251	94	2	6	15	6
Residential	24	92	1,732	95	2	8	89	5
Agricultural	23	79	1,879	74	6	21	641	26
Total Reviewed	77	89	3,862	84	10	11	745	16

\$ is in thousands (000's)

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

CNB's loan portfolio reflects a satisfactory distribution among individuals of various income levels and commercial and agricultural-related businesses of different sizes within the AA. Our analysis included a sample of 30 consumer and 24 residential loans originated during the period of January 2007 through August 2009.

Our sample analysis represents that CNB lends to all applicants, regardless of their income category. Based on the 2000 Census, 48% of AA households are LMI. Our review determined that 53% of consumer loans were made to LMI households. However, the bank's penetration of residential loans to low-income families was below AA demographics. Based on the 2000 Census, 28% of AA families are low-income. According to the community contact made during this evaluation, there are reportedly very few homes available in the AA at selling prices that LMI families could qualify for (the average selling home price is reportedly \$45,000). The following chart reflects the results of our selected sample of consumer loans originated in the bank's AA.

CONSUMER								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>% of AA Households</i>	32		16		20		32	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	33	12	20	20	20	27	27	41

RESIDENTIAL REAL ESTATE								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>% of AA Families</i>	28		18		24		30	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	8	5	33	20	25	24	34	51

CNB originates commercial and agricultural-related loans in a manner consistent with area demographics. The bank's distribution of loans to "small businesses and farms with revenues less than \$1 million" is reflective of CNB's focus on lending to small farms and business community. The following charts reflect data from the review of 29 commercial and agricultural-related loans originated between January 2007 and August 2009.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES - AGRICULTURAL		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93	7
% of Bank Loans in AA #	72	28
% of Bank Loans in AA \$	65	35

Geographic Distribution of Loans

The geographic distribution of loans in CNB's AA exceeds the standard for satisfactory performance, given LMI demographic criteria. A review of 32 consumer, 26 mortgage-related loans, and 29 commercial loans, originated in January 2007 through August 2009, is detailed in the following tables.

CONSUMER

<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
%of AA Households	0		66		17		17	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0	0	72	70	13	12	15	18

RESIDENTIAL REAL ESTATE								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
%of AA Owner Occupied	0		62		19		19	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0	0	65	44	8	8	27	48

AGRICULTURAL								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
% of AA Businesses⁶	0		21		56		23	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0	0	52	61	27	21	21	18

Responses to Complaints

CNB maintains no records of any complaints relating to their performance under the CRA.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices. The bank maintains no records of any complaints and or review of consumer loan files during this evaluation period provided no indication of disparate treatment.