



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 13, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Classic Bank, N.A.
Charter Number: 13731

102 North Houston
Cameron, TX 76520

Office of the Comptroller of the Currency
Southern District
San Antonio - North Field Office
10001 Reunion Place, Suite. 250
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 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.

INSTITUTION'S CRA RATING: “Satisfactory”

The Lending Test is rated: “Satisfactory”

Classic Bank’s (CB) lending performance reflects a satisfactory response to community credit and community development (CD) needs. This conclusion is based on the following results from our review:

- The loan-to-deposit (LTD) ratio meets the standard for satisfactory performance.
- The bank originated a large majority of loans inside its assessment area (AA).
- Overall lending activities represent a “low end” satisfactory overall performance among borrowers of different incomes and businesses of different sizes. Distribution of commercial loans is excellent and distribution of consumer loans is reasonable. However, distribution of residential loans is poor. CB made no residential loans to low- to moderate-income (LMI) borrowers while demographic data indicates that approximately 34% of families are LMI.

SCOPE OF EXAMINATION

CB was evaluated under the Small Bank examination procedures, which include a lending test and a voluntary CD test. The lending test evaluates the bank’s record of meeting the credit needs of its AA through its lending activities. The CD test evaluates the bank’s responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services. Bank management did not elect to participate in the CD test as part of this examination.

The commercial and residential lending test for CB covers its performance from January 1, 2006, through November 30, 2009, as this is representative of its lending strategy since the last CRA examination dated December 19, 2005. The consumer lending test covers CB’s performance from December 14, 2009, through January 4, 2010.

CB’s primary loan products are commercial and residential loans. A sample of commercial loans was taken to evaluate the bank’s lending to businesses. The bank does not report data under the requirements of the Home Mortgage Disclosure Act (HMDA). Therefore, we selected a sample of residential loans to evaluate the bank’s home loan performance. Consumer loans were chosen for additional sampling as these loans represent loans made to individuals.

DESCRIPTION OF INSTITUTION

CB is an intrastate bank chartered in 1889, and headquartered in Cameron, Texas. Assets totaled approximately \$200 million as of September 30, 2009. Cameron Financial Corporation of Delaware owns 51% of the bank, and is a single-bank holding company. CB has a total of 5 full-service locations, each offering automated teller machines (ATM) and drive-through banking services. CB also maintains 2 ATM convenience store locations in Giddings Texas.

There are no legal, financial, or other factors hindering the bank’s ability to help meet the credit needs in its AA. The previous CRA examination is dated December 19, 2005, and CB was rated “Satisfactory” under the small bank criteria.

As of September 30, 2009, loans totaled \$126 million which is approximately 63% of total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Summary by Loan Product September 30, 2009		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial (Including Real Estate)	48,150	38%
Residential	36,788	29%
Agriculture/Farm	22,285	18%
Consumer	9,893	8%
Obligations	8,976	7%
Other Loans	350	0%*
Total	126,442	100%

* The percentage of Obligations is 0.28%

Source: Institution Consolidated Reports of Condition

CB offers standard deposit and loan products at each branch. Customers have access to online banking, e-statements, and bill pay. In addition, CB offers mobile banking and a rewards checking account. Mobile banking allows customers to check balances, transfer money between accounts, and pay bills by using their mobile phone. The rewards checking account has no monthly fees, no minimum balance requirements, nationwide ATM fee refunds, and pays a higher interest rate for balances below \$25,001.

DESCRIPTION OF ASSESSMENT AREA(S)

The CRA requires a financial institution to define the AA in which it will be evaluated. CB has one AA consisting of Milam, Lee, and a western portion of Falls Counties. CB has very recently opened a new branch in Bastrop, Texas. All of Bastrop County is now part of the bank's AA. Since the new branch was just recently opened, it was not included in this evaluation period.

Description of Classic Bank Assessment Area

CB's AA consists of Milam, Lee, and a western portion of Falls Counties. CB operates 4 banking centers within the AA. There are 2 branches in Milam County, 1 branch in Lee County, and 1 branch in Falls County. The AA is comprised of 13 contiguous census tracts, including: 10 middle-income census tracts, and 3 upper-income census tracts.

The AA designations meet the requirements of the regulation and do not arbitrarily exclude LMI areas. The table on the following page contains more information:

Demographic Information for Classic Bank AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	13	0%	0%	77%	23%
Population by Geography	47,692	0%	0%	78%	22%
Owner Occupied Housing Units by Geography	21,112	0%	0%	75%	25%
Businesses by Geography	4,521	0%	0%	78%	22%
Farms by Geography	359	0%	0%	80%	20%
Family Distribution by Income Level	12,900	17%	16%	22%	45%
Household Distribution by Income Level	17,760	22%	14%	18%	46%
Census Median Family Income (MFI)					
		\$36,380	Median Housing Value	\$58,031	
HUD – Adjusted MFI: 2009		\$45,600	Households Below the Poverty Level	16%	
HUD – Adjusted MFI: 2008		\$43,600	Unemployment Rate	4.14%	
HUD – Adjusted MFI: 2007		\$41,800			

Source: 2000 US Census and 2009 HUD updated median family income

Economic conditions within the AA continue to fare better than the national economy. The southernmost areas of the AA, those in closest proximity to the Austin, Texas metropolitan statistical area (MSA), have continued to experience growth. Sales tax collections have remained stable throughout the AA. However, there has been a very recent decline in the Milam and Falls Counties' sales tax collections.

Construction, manufacturing, and farming continue to be the most popular industries throughout the AA. Additionally, public entities like the city and school districts play a large role in employing residents. The job and population growth for Milam and Falls Counties is very nearly flat and lags the state and national averages.

According to the US Bureau of Labor Statistics, the seasonally-adjusted unemployment rate for the nation was 9.4% as of July 2009, an increase from the prior year of 5.8%. The unemployment rate for the state of Texas was 7.9%, an increase from July 2008 of 4.9%. Unemployment rates in Classic Bank's AA are slightly below national and state averages.

CB's branches operate in a rural and moderately competitive environment with other local community banks.

In conducting the assessment of the bank's performance, we contacted two members of local community organizations including the Cameron Industrial Foundation and the Giddings Economic Development. The contact from the Cameron Industrial Foundation indicated that affordable housing for LMI individuals and families is close to non-existent. The contact from the Giddings Economic Development stated that there is a lack of rental property available for LMI families. Both contacts did express that local community banks are doing a good job of meeting the credit needs of individuals in this AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Lending Test

CB's performance under the lending test is satisfactory considering the performance context and needs of its AA.

Loan-to-Deposit Ratio

The bank's LTD ratio is reasonable given its size, financial condition, and AA credit needs. In the sixteen quarters since the last examination, the bank's LTD ratio averaged 56%. CB had a quarterly low of 47%, and a quarterly high of 74%. The bank's LTD ratio is above average and ranks second compared to three similar situated banks in the bank's AA. LTD ratios for the other banks ranged from 37% to 62%, and averaged 48% during the same period. CB's LTD ratio has improved over the past CRA examinations.

INSTITUTION	ASSETS As of 9/30/2009	AVERAGE QUARTERLY LTD RATIO As of 9/30/09
Citizens National Bank, Cameron	284,175	36.68%
First National Bank of Giddings	149,454	61.95%
The Buckholts State Bank, Buckholts	58,744	44.22%
Classic Bank, Cameron	199,544	55.56%

Source: Institution Consolidated Reports of Condition

Lending in the Assessment Area

A majority of the primary loan products originated by CB are to consumers within its AA. The following table details the bank's lending within the AA by number and dollar amount of loans originated during the evaluation period:

Table 1 Lending in Milam County, Lee County, Falls County Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	14	70	6	30	20	331,126	51	315,950	49	647,076
Residential	17	85	3	15	20	1,761,240	51	660,500	27	2,421,740
Consumer	17	85	3	15	20	142,959	91	14,349	9	157,308
Totals	48	80	12	20	60	2,235,325	69	990,799	31	3,226,124

Source: Loan Sample

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

Overall lending activities represent a low-end satisfactory performance among borrowers of different incomes. Commercial loan distribution is excellent and consumer loan distribution is reasonable. However, distribution of residential loans is poor. CB made no residential loans to LMI borrowers while demographic data indicates that approximately 34% of families are LMI.

Commercial Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Based on our loan sample, 85% of the bank's loans to businesses were made to small businesses (gross annual revenues of one million dollars or less). This is excellent

compared to demographic data that indicates approximately 71% of the AA's businesses are considered small businesses. Also, our sample showed that approximately 75% of the dollar volume of loans to businesses was to small businesses.

The following table shows the distribution of commercial loans among different-sized businesses in the AA.

Table 2				
Borrower Distribution of Loans to Businesses				
Milam County, Lee County, Falls County Assessment Areas				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unavailable/ Unknown</i>	<i>Total</i>
% of AA Businesses	71.27%	2.59%	26.14%	100%
% of Bank Loans in AA by #	85	15	0	100%
% of Bank Loans in AA by \$	75	25	0	100%

Source: Loan Sample; Dunn and Bradstreet Data

Residential Loans

Distribution of residential loans to LMI borrowers is poor. CB did not originate any LMI residential loans while demographic data indicates that 17% of families are low-income and 16% of families are moderate-income.

We expanded the residential sample and reviewed 16 additional loans made in the AA. Of the additional loans sampled, only 1 loan was made to a moderate-income borrower. The additional loans are not part of the table below.

The following table shows the distribution of residential loan products among borrowers of different income levels as compared to the percent of families in each income category.

Table 2A								
Borrower Distribution of Residential Real Estate Loans								
Milam County, Lee County, Falls County Assessment Areas								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
<i>Loan Type</i>	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential	17.32	0	16.33	0	21.60	10	44.76	90

Source: Loan Sample; U.S. Census Data

Consumer Loans

The distribution of consumer loans to borrowers reflects reasonable penetration among borrowers of different income levels.

Based on our loan sample, loans originated to low-income borrowers are below demographic data; however, loans originated to moderate-income borrowers are significantly above demographic data. CB made 40% of consumer loans to moderate-income borrowers which compares favorably to demographic data that indicates that approximately 14% of households in the AA are moderate-income.

Overall, CB made 50% of consumer loans to LMI borrowers while demographic data indicates that approximately 37% of households are LMI.

The following table details the bank’s performance as compared to the percentage of households in each census tract income level.

Table 2B Borrower Distribution of Consumer Loans in Milam County, Lee County, Falls County Assessment Areas								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	22.35	10	14.32	40	17.80	30	45.53	20

Source: Loan sample; U.S. Census data.

Geographic Distribution of Loans

CB’s AA has no LMI census tracts. Therefore, a meaningful geographic distribution analysis could not be performed.

Responses to Complaints

Classic Bank has not received any CRA complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.