



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 15, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Ballinger National Bank
Charter Number 23183

900 Huchings Avenue
Ballinger, Texas 76821

Office of the Comptroller of the Currency
San Antonio – North Field Office
10001 Reunion Place, Suite 250
San Antonio, Texas 78216-4133

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: This institution is rated “Satisfactory.”

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

- The loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and assessment area (AA) credit needs.
- The bank originated a substantial majority of loans inside its AA.
- The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among farms and businesses of different sizes.
- Geographic distribution of loans represents a reasonable dispersion.

SCOPE OF EXAMINATION

BNB was evaluated under the Small Bank examination procedures, which include a lending test and a voluntary community development (CD) test. The lending test evaluates the bank’s record of meeting the credit needs of its AAs through its lending activities. The CD test evaluates the bank’s responsiveness to CD needs in its AAs through CD lending, qualified investments, and CD services.

The lending test for BNB covers its performance from May 1, 2006, through June 15, 2009, as this is representative of its lending strategy since the last CRA examination. BNB chose not to participate in the CD test.

BNB’s primary loan products are agricultural/farm and commercial loans. The bank does not report data under the Home Mortgage Disclosure Act (HMDA). Therefore, we selected a sample of commercial loans to evaluate the bank’s business loan performance. To evaluate the bank’s agricultural/farm lending performance, we selected a sample of agricultural/farm loans.

DESCRIPTION OF INSTITUTION

BNB, a \$37 million, rural community bank, was chartered in 1997. BNB is located in Ballinger, Texas, which is approximately 40 miles northeast of San Angelo and 60 miles southwest of Abilene. The bank’s one office consists of a drive-up motor bank and a walk-in teller lobby and one automated teller machine (ATM). Primary lending products include agricultural/farm and commercial loans.

On March 31, 2009, net loans comprised 50% of BNB’s total assets. A summary of the loan portfolio is as noted on the table on the following page:

Loan Portfolio Summary by Loan Product March 31, 2009		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial	4378	23%
Residential	3443	18%
Agriculture/Farm	7795	42%
Other Loans	22	1%
Consumer	3025	16%
Total	18,663	100%

Source: March 31, 2009, Consolidated Report of Condition

In addition to the drive-up motor bank, lobby, and ATM, BNB provides a telephone banking system available 24 hours a day. Also, BNB offers online banking where customers can manage their account from a computer.

There are no legal, financial, or other factors impeding the bank’s ability to meet the credit needs of its AA. The last CRA performance evaluation was done on May 1, 2006, and the bank was rated “Satisfactory.” There have been no significant changes in the bank’s corporate structure or business strategy.

DESCRIPTION OF ASSESSMENT AREA

BNB has one AA which is described below.

Runnels County Assessment Area

BNB has designated Runnels County as its AA. The city of Ballinger is the county seat and major population center in Runnels County. The bank’s AA is comprised of four contiguous census tracts. Three census tracts within the county have been classified as middle-income areas, and one identified as moderate-income. The three middle-income census tracts have been designated as distressed tracts because of their poverty level. The poverty level for the entire AA is 19.34%. This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies. A further description of the AA is presented on the following page.

Demographic Information for Runnels County Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	4	0%	25%	75%	0%
Population by Geography	11,495	0%	23.66%	76.34%	0%
Owner Occupied Housing Units by Geography	5,400	0%	22.35%	77.65%	0%
Businesses by Geography	999	0%	16.92%	83.08%	0%
Farms by Geography	147	0%	4.76%	95.24%	0%
Family Distribution by Income Level	3,203	23.54%	17.3%	24.13%	35.03%
Household Distribution by Income Level	4,442	29.27%	14.93%	20.8%	35.01%
Census Median Family Income (MFI)					
		\$32,906	Median Housing Value		\$43,166
HUD – Adjusted MFI: 2008		\$43,600	Households Below the Poverty Level		19.34%
HUD – Adjusted MFI: 2007		\$41,800	Unemployment Rate		2.43%
HUD – Adjusted MFI: 2006		\$43,100			

Source: 2008 Business Geodemographic Data; 2000 U.S. Census Data

Runnels county economy is based on farming, ranching, small retail businesses, and light manufacturing. The largest employers in the area are Mueller Supply, metal manufacturer, and Buddy’s Plant Plus Corporation, fertilizer manufacturer. Also, the school district and Runnels County are major employers.

In conducting the assessment of BNB’s performance, we contacted a local community organization. This contact indicated that banks in the community are doing an excellent job of meeting the credit needs of individuals in this AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

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

Loan-to-Deposit Ratio

BNB’s LTD ratio is reasonable given the bank’s size, financial condition, and AA credit needs. The bank’s net LTD ratio averaged 53% over the last 12 quarters since the last CRA examination, with a quarterly low of 44% and a quarterly high of 60%. Since the last CRA examination, the bank’s LTD ratio has improved from the 42.74% it was at the last examination. There are not any banks listed below with extraordinarily high LTD ratios as the demand for loans is not high in this rural area. BNB ranks third among the listed institutions’ LTD ratios. The three comparable banks had an LTD ratio averaging 59%. Asset size and LTD comparisons between similar institutions are presented on the table on the following page.

Institution	Assets as of 3/31/09 (000s)	Average Quarterly LTD Ratio as of 3/31/09
Ballinger National Bank	\$37,420	53.12%
Citizens State Bank, Miles	\$68,406	68.32%
Security State Bank, Winters	\$31,795	46.44%
First National Bank of Ballinger	\$118,844	61.86%

Source: March 31, 2009, Consolidated Report of Condition

Lending in the Assessment Area

A substantial majority of the primary loan products originated by BNB 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.

Lending in Runnels County Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Agricultural/Farm	16	80	4	20	20	357,650	71.30	143,974	28.70	501,624
Commercial	17	85	3	15	20	298,309	66.19	152,386	33.81	450,695
Total	33	82.5	7	17.5	40	655,959	68.88	296,360	31.12	952,319

Source: Loan Sample

Lending to Farms and Businesses of Different Sizes

The distribution of borrowers reflects, given the demographics of the AA, excellent penetration among farms and businesses of different sizes.

Agricultural/Farm Loans

Overall, the distribution of agricultural/farm loans to borrowers reflects excellent penetration among farms of different sizes.

Our loan sample shows that agricultural/farm lending reflected percentages higher than those reported in the demographic data for small businesses. One-hundred percent of the bank's loans for agriculture/farms originated during the loan sampling period were made to small farms. Small farms are farms with gross annual revenues of \$1 million dollars or less. The loan sample results are considered excellent compared to demographic data that show 97% of the area's farms are considered small farms.

The table on the following page shows the distribution of agricultural/farm loans among farms of different sizes in the AA.

Borrower Distribution of Loans to Farms in Runnels County Assessment Area				
<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	97.28	2.04	0.68	100%
% of Bank Loans in AA by #	100	0	-	100%
% of Bank Loans in AA by \$	100	0	-	100%

Source: Loan sample; Dunn and Bradstreet data

Commercial Loans

The distribution of commercial loans reflects excellent penetration among businesses of different sizes. Ninety percent of the bank’s loans to businesses originated during the loan sampling period were made to small businesses. Small businesses are businesses with gross annual revenues of \$1 million dollars or less. The loan sample results are considered excellent compared to demographic data that show 50% of the area’s businesses are considered small businesses.

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

Borrower Distribution of Loans to Businesses in Runnels County Assessment Area				
<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	50.15	2.80	47.05	100%
% of Bank Loans in AA by #	90	10	-	100%
% of Bank Loans in AA by \$	83.96	16.04	-	100%

Source: Loan sample; Dunn and Bradstreet data

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the bank’s AA.

Agricultural/Farm Loans

Three of the four census tracts in the AA are considered middle-income. The one census tract that is considered moderate income is located in the town of Winters. The surrounding rural area outside of the town of Winters is classified as middle-income, along with the rest of Runnels county. Distribution of loans to farms in the moderate-income census tract shows reasonable dispersion considering the fact that the majority of the agricultural/farm loans would be found in the surrounding rural areas outside of a town and the moderate-income census tract is located inside of the town of Winters.

The table on the following page shows the distribution of agricultural/farm loans among farms of different income levels.

Geographic Distribution of Loans to Farms in Runnels County Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Farms	0	0	4.76	0	95.24	100	0	0

Source: Loan sample; Dunn and Bradstreet data

Commercial Loans

Distribution of loans to businesses in the moderate-income census tract shows poor dispersion; however, there are mitigating circumstances. Consideration is being given to the fact that the moderate income census tract only represents the town of Winters. BNB operates out of one office and therefore does not have a branch in the moderate census tract. Competition for loans in the census tract is high as there are three banks located in Winters.

The following table shows the distribution of commercial loans among businesses of different income levels.

Geographic Distribution of Loans to Businesses in Runnels County Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Businesses	0	0	16.92	0	83.08	100	0	0

Source: Loan sample; Dunn and Bradstreet data

Responses to Complaints

Ballinger National 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.