



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 13, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texas National Bank
Charter Number 22807

400 East Broadway
Sweetwater, TX 79556-0000

Office of the Comptroller of the Currency

LUBBOCK (WEST TEXAS) Field Office
5225 South Loop 289 Suite 108
Lubbock, TX. 79424-1319

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.

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

Texas National Bank of Sweetwater (TNB) has a satisfactory record of meeting community credit needs based on the following:

- TNB's loan-to-deposit ratio is reasonable when compared to banks of similar size and characteristics in or near the assessment area (AA). The loan-to-deposit ratio averages 46.60 percent.
- A majority of TNB's loans are located within the bank's AA. Based on a sample of 60 loans, 73.33 percent of the number and 57.51 percent of the dollar volume of loans were to borrowers located within the AA.
- The lending performance to individuals of different income levels and to businesses of different sizes is reasonable.
- The geographic distribution of loans reflects a reasonable dispersion in the AA given the bank's business strategy, location, and performance context factors.

SCOPE OF EXAMINATION

This Performance Evaluation assesses TNB's record of meeting the credit needs of the community in which it operates. We evaluated TNB under the Small Bank performance criterion, which includes five performance criteria: the loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, geographic distribution of loans, and responses to CRA-related complaints.

To evaluate TNB's lending performance, a random sample of loans was taken based on the bank's primary loan types. Primary loan types are those products that have been originated at the highest percentages by dollar and/or number of loans. Primary loan products during this evaluation period consist of commercial and consumer loans. The loan sample consisted of 30 loans for each loan type originated between January 2006 and September 2009.

DESCRIPTION OF INSTITUTION

TNB is a community bank located in Sweetwater, Texas approximately 220 miles west of Dallas, 125 miles southeast of Lubbock, and 40 miles west of Abilene. TNB is an intra-state bank with one banking office, a motor bank facility, and an ATM.

TNB meets customers' needs by providing traditional commercial and consumer banking products and related financial products. Bank lobby and drive-through services are provided Monday through Saturday. The bank provides customers access to their accounts through its website at www.tnbnetbank.com. Internet services include account balance inquiries and account transfer activities.

As of September 30, 2009, TNB had total assets of \$79 million, with net loans and leases comprising 33.7 percent of this total. The bank's loan products include agricultural, agriculture real estate, commercial, commercial real estate, consumer, and residential real estate. The following table depicts FNB's loan portfolio composition.

| Loan Portfolio Composition as of September 30, 2009 | | |
|--|-----------------|----------------|
| Loan Type | \$ (000) | % |
| Commercial Real Estate | 7,227 | 26.52 |
| Commercial | 7,128 | 26.16 |
| Residential Real Estate | 5,814 | 21.34 |
| Consumer | 3,045 | 11.18 |
| Agriculture | 2,703 | 9.92 |
| Agriculture Real Estate | 1,331 | 4.88 |
| TOTAL | 27,248 | 100.00% |

Source: September 30, 2009 Call Report

Management and the Board of Director's primary focus is to serve, commercial, consumer, agricultural, and real estate customers in Nolan County Census Tracts 9501, 9502, 9503, and 9504. Based on TNB's financial condition, local economy, product offerings, and competition, the bank has the ability to meet the various credit needs in its community. TNB was rated Satisfactory at the previous CRA examination on March 24, 2003. TNB has no legal or financial circumstances that could impede the bank's ability to help meet the credit needs in its AA. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

DESCRIPTION OF ASSESSMENT AREA

TNB has designated Nolan County census tracts 9501, 9502, 9503, and 9504 as its AA. Sweetwater is the county seat and is situated in the North East corner of Nolan County. Other principal cities located within Nolan County, but not included in the AA, are Roscoe and Blackwell. According to 2000 Census data, Sweetwater is the largest of the three cities. Specific demographic data and economic data for Nolan County census tracts 9501, 9502, 9503, and 9504 are listed on the following table.

| Demographic and Economic Characteristics of the AA | |
|---|----------|
| <i>Population</i> | |
| Number of Families | 3,490 |
| Number of Households | 5,048 |
| <i>Geographies</i> | |
| Number of Census Tracts | 4 |
| % Low-Income Census Tracts | 0.00% |
| % Moderate-Income Census Tracts | 50.00% |
| % Middle-Income Census Tracts | 0.00% |
| % Upper-Income Census Tracts | 50.00% |
| <i>Median Family Income (MFI)</i> | |
| 2000 MFI for AA | 34,386 |
| 2009 HUD-Adjusted MFI | 45,600 |
| 2008 HUD-Adjusted MFI | 43,600 |
| 2007 HUD-Adjusted MFI | 41,800 |
| 2006 HUD-Adjusted MFI | 43,100 |
| <i>Economic Indicators</i> | |
| Unemployment Rate | 2.91% |
| 2009 Median Housing Value | \$34,579 |
| % of Households Below Poverty Level | 23.20% |

Source: 2000 Census data and HUD updated income data.

The Board of Directors (Board) of TNB prefers not to include all of Nolan County as their AA. Given the rural geographic nature of the county, the Board chooses to exclude census tract 9505 due to its location and negligible population. Census tract 9505 is mainly countryside with a large number of wind turbines. The town of Roscoe is located in census tract 9505, but it is served by other financial institutions. The Board chose census tracts 9501, 9502, 9503, and 9504 in Nolan County as most representative of the boundaries and area they serve. The AA consists of only whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA consists of two moderate-income and two upper-income census tracts, which include the City of Sweetwater.

According to 2000 Census data, the AA has a total population of 12,925. There are 6,135 housing units in the AA, of which 53.7 percent are owner-occupied, 28.7 percent are renter-occupied, and 12.1 percent are vacant. Approximately 29.1 percent of families in the AA are considered low-income. Moderate-income families approximate 17.2 percent, while middle- and upper-income families make up the remaining 53.7 percent. The median housing value is \$34,579 with the median age of housing stock at 50 years. The 2000 Census data reflects that 23.2 percent of the households in Nolan County Census Tracts 9501, 9502, 9503, and 9504 are below the poverty level.

Primary competition in the AA is from two financial institutions. In addition to TNB, First Financial Bank based in Abilene, Texas has a branch in Sweetwater, and The Roscoe State Bank is located just outside the AA. The June 30, 2009 FDIC Deposit Market Share Report for Nolan County shows TNB to have the smallest deposit market share of the three institutions with 27.9 percent.

The local economy is based on alternative energy production (wind energy), manufacturing,

agriculture, and livestock. Wind energy is the number one resource of the AA and Nolan County. Immense wind turbines are a familiar sight in the area. Texas has been the top wind-generating state since 2006 and continues to add more capacity than any other state. Texas has six of the top ten wind farms in the United States, and four of the top ten reside in Nolan County. Sweetwater is home to the third largest wind farm in the United States. Adjacent counties have benefited from the growing wind-power market. Coke and Shackelford Counties are home to the second and sixth top wind farms in the United States. Primary industries providing employment in the AA include educational, manufacturing, wind energy, social, and agriculture. Primary employers of the AA include Sweetwater Independent School District, Ludlum Measurements, Rolling Plains Hospital, and Wal-Mart.

As part of this CRA examination, one community contact was made in the bank’s AA to help ascertain credit needs. According to the contact, the financial institutions of Sweetwater, Texas are meeting the credit needs of the community, including those of low- and moderate-income neighborhoods.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Based on the analysis, and consistent with available resources and capabilities, TNB is meeting the credit needs of the AA in a satisfactory manner.

Loan-to-Deposit Ratio

TNB’s loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and the AA’s credit needs. This determination is based on the bank’s quarterly average loan-to-deposit ratio from March 31, 2003 through September 30, 2009 of 46.60 percent. During the evaluation period, TNB’s loan-to-deposit ratio ranged from a low of 34.39 percent to a high of 55.80 percent. The average loan-to-deposit ratio of similarly situated banks within or contiguous to the AA for the same period was 49.27 percent.

The quarterly average loan-to-deposit ratio for each similarly situated bank in or contiguous to the AA is depicted below. Please note that these banks are listed alphabetically by city, and no ranking is intended or implied.

| Loan-to-Deposit Ratios | | |
|---|---|-------------------------------|
| Institution | Total Assets \$ (000's) (As of 9/30/09) | Average Loan-to-Deposit Ratio |
| First National Bank of Colorado City | 38,295 | 41.68 |
| The City National Bank of Colorado City | 72,928 | 38.69 |
| The Roscoe State Bank | 105,478 | 51.00 |
| First National Bank - Rotan | 61,055 | 63.70 |
| First Financial Bank - Sweetwater, NA | 131,922 | 51.27 |
| Texas National Bank - Sweetwater | 78,933 | 46.60 |

Source: Institution Reports of Condition from March 2003 to September 2009

Lending in Assessment Area

TNB's lending in its AA meets the standards for satisfactory performance. A majority of the bank's loans were made within its AA. In order to assess performance for this criterion, we reviewed 30 commercial and 30 consumer loans originated between January 2006 and September 2009. Our analysis determined that 73.33 percent of the number and 57.51 percent of the dollar volume of loans were to borrowers located within the AA. The breakdown by loan category is depicted in the following table.

| Lending in the AA | | | | | | | | | | |
|--------------------------|-----------------|--------|---------|--------|-------|--------------------------|--------|---------|--------|-------|
| Loan Type | Number of Loans | | | | | Dollars of Loans (000's) | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Business | 20 | 66.67% | 10 | 33.33% | 100.0 | 805 | 54.58% | 670 | 45.42% | 100.0 |
| Consumer | 24 | 80.00% | 6 | 20.00% | 100.0 | 183 | 75.31% | 60 | 24.69% | 100.0 |
| Totals | 44 | 73.33% | 16 | 26.67% | 100.0 | 988 | 57.51% | 730 | 42.49% | 100.0 |

Source: Sample of loans used for CRA performance analysis

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

TNB's loan portfolio reflects a reasonable distribution among individuals of various income levels (including low- and moderate-income) and businesses of different sizes within their AA. To perform our analysis, we reviewed income information of 20 business and 24 consumer-purpose loans in the AA originated between January 2006 and September 2009.

Business Loans - Based on 2009 Business Demographic Data, there are 1,053 businesses within the AA. Of this number, 71.42 percent of businesses reported revenues less than or equal to \$1 million. Of the loans in the commercial sample, 70.00 percent were to businesses reporting annual revenues below \$1 million. This level meets the standards for reasonable penetration of loans to small businesses. The following table reflects the results of our selected sample of commercial loans originated in the AA.

| Borrower Distribution of Loans to Businesses in the AA | | | | |
|---|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 71.42% | 3.04% | 25.55% | 100% |
| % of Bank Loans in AA by # | 70.00% | 30.00% | 0.00% | 100% |
| % of Bank Loans in AA by \$ | 34.95% | 65.05% | 0.00% | 100% |

Source: Loan sample; Dunn and Bradstreet data.

Consumer Loans - Our analysis reflects a reasonable penetration of consumer loans to low-income households in the AA when also considering the percentage of loans made to moderate income households and varying circumstances of the AA. Many low income families in the moderate income census tracts of the AA find themselves below poverty levels. The two moderate income census tracts (9503 and 9504) represent the more impoverished areas of Sweetwater. Due to these circumstances, obtaining a loan is difficult, therefore loans to low income households is significantly below the percentage of low income households. Based on 2000 Census data, 31.74 percent of households in the AA are low-income. Our review

determined that 12.50 percent of consumer loans sampled were made to low-income households. Our analysis reflects reasonable penetration of consumer loans to moderate-income households in the AA. Approximately 16.28 percent of households in the AA are moderate-income, and 29.17 percent of the sampled consumer loans were to moderate-income households. The following table reflects the results of our selected sample of consumer loans originated in the AA.

| Borrower Distribution of Consumer Loans in the AA | | | | | | | | |
|--|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 31.74 | 12.50 | 16.28 | 29.17 | 17.37 | 29.17 | 34.61 | 29.17 |

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

Geographic Distribution of Loans

The geographic distribution of loans within the census tracts is reasonable given the bank’s business strategy, location, and performance context factors. Our analysis included 21 business and 24 consumer loans originated between January 2006 and September 2009.

Business Loans: Geographic distribution of commercial loans in the moderate-income census tract is below the demographic composition of the AA. This performance is somewhat mitigated by the demographic composition of the AA mentioned above. Based on 2008 Business Demographic Data, 60.78 percent of businesses are located in the two moderate-income census tracts. Our business loan sample included 50.00 percent or 10 loans located in the moderate-income census tracts. In addition, 39.22 percent of businesses are located in the two upper-income census tracts. Our business loan sample included 50.00 percent or 10 loans located in the upper-income census tracts. The following table reflects the results of commercial loans originated in the AA.

| Geographic Distribution of Loans to Businesses in the AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans | % of AA Businesses | % of Number of Loans |
| Businesses | 0.00% | 0.00% | 60.78% | 50.00% | 0.00% | 0.00% | 39.22% | 50.00% |

Source: Loan sample; Dunn and Bradstreet data.

Consumer Loans: Geographic distribution of loans to consumers in the AA is significantly below the demographic composition. However, 67.7 percent of households in the moderate-income tract are low-income households and 72.1 percent fall below poverty levels. These characteristics of the moderate-income tracts increase the difficulty of obtaining a loan. Based on 2000 Census information, 51.58 percent of households are located in the two moderate-income census tracts. Our consumer loan sample included 37.50 percent or 9 loans located in the moderate-income census tract. In addition, 48.42 percent of households were located in the two upper-income census tracts. Our sample included 62.50 percent or 15 loans located in the two upper-income census tracts. The following table reflects the results of our selected sample of consumer loans originated in the AA.

| Geographic Distribution of Consumer Loans in the AA | | | | | | | | |
|--|-----------------------|-------------------------------|-----------------------|-------------------------------|---------------------------|-------------------------------|-----------------------|----------------------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Households | % of Number of Loans | % of AA Households | % of Number of Loans | % of AA Household s | % of Number of Loans | % of AA Households | % of Number of Loans |
| Consumer Loans | 0.00% | 0.00% | 51.58% | 37.50% | 0.00 | 0.00% | 48.42% | 62.50% |

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

Responses to Complaints

No complaints relating to CRA performance have been received by TNB during the evaluation period, and this has a neutral impact on the bank’s performance.

Fair lending or Other Illegal Credit Practices Review

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