



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 01, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Cattleman's National Bank
Charter Number 21015**

**Southwest Center
Round Mountain, TX 78663**

**Comptroller of the Currency
ADC - Austin
8310 Capital of Texas Highway North Suite 250
Austin, TX 78731**

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.

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

Lending performance for Cattleman's National Bank's (CNB) is outstanding given its size, financial condition, and known credit needs in its assessment area (AA).

- CNB's loan-to-deposit (LTD) ratio is in line with other strong LTD banks in its AA and exceeds the standard for satisfactory performance. The bank's LTD ratio has averaged 52% for this evaluation period. Although this level of lending is slightly below the average LTD ratio of 59% for other banks in the AA, CNB's practice of placing 1-4 family residential loans with other lenders offering more preferential loan products and terms has provided a necessary service to residents of its AA. Refer to the **CONCLUSIONS ABOUT PERFORMANCE CRITERIA** section of this Performance Evaluation (PE) for specific details.
- A substantial majority of CNB's loans are within its Non-Metropolitan Statistical Area (MSA) and MSA AAs with 87% of the number and 91% of the dollar volume of loans originated since the last evaluation.
- Given the demographic characteristics of the bank's AA, CNB has exceeded the standard for satisfactory distribution of loans to individuals of varying incomes and businesses of different sizes.
- There have been no complaints with respect to CNB's CRA performance.

DESCRIPTION OF INSTITUTION

CNB is a \$73 million rural bank headquartered in Round Mountain, Blanco County, Texas. Round Mountain is an isolated area, approximately 60 miles west of Austin and between the communities of Marble Falls and Johnson City. Five branch offices are within 40 miles of the main office and are located in Blanco, Marble Falls, Johnson City, Dripping Springs, and Stonewall. The Dripping Springs, Stonewall, and Marble Falls offices have automated teller machine (ATM) services. All offices provide full banking services, while the Dripping Springs office offers mortgage-banking services as well. CNB web site (www.cattlemansnationalbank.com) provides information concerning the bank's services. The web site also provides 24-hour Internet banking services such as obtaining account information, transfers between accounts, bill paying, and Automated Clearing House (ACH) processing for commercial customers.

At our last examination of your bank's compliance with the Community Reinvestment Act (CRA) dated March 2, 1998, the bank was rated "Satisfactory." No legal impediments or other factors hinder the bank's ability to provide credit in its AA.

Majority ownership of CNB is centered in one local family. CNB is affiliated with Arrowhead State Bank, in Llano, Texas, through common ownership.

The institution's principal focus is to promote economic development in its AA through its lending programs. CNB's primary lending products include commercial, consumer, residential, and small business loans. Total loans as of December 31, 2001, amounted to \$40.4 million, which comprise 55% of total assets. The following table reflects a detailed breakdown of CNB's loan portfolio as of December 31, 2001.

| Loan Type | Dollar Amount \$ (000) | % of Total Loans |
|---|-----------------------------------|-----------------------------|
| Consumer | \$ 12,924 | 32% |
| 1-4 Family Residential Real Estate (RE) | \$ 7,753 | 19% |
| Commercial RE | \$ 7,438 | 18% |
| Commercial & Industrial | \$ 6,494 | 16% |
| RE Construction | \$ 3,051 | 8% |
| Farmland | \$ 2,057 | 5% |
| RE Multifamily | \$ 600 | 1% |
| Agricultural Production | \$ 76 | less than 1% |
| Other | \$ 47 | less than 1% |
| Total | \$40,440 | 100% |

Bank lobby and drive-through services are provided Monday through Friday with drive-through service being provided on Saturdays as well. CNB faces strong competition from six other community banks and five branches of larger savings institutions or regional banks located in or around the branch office locations. There are no other banks located in the communities of Round Mountain and Stonewall.

DESCRIPTION OF ASSESSMENT AREA

CNB's designated AA is comprised of a Non-MSA known as the "Highland Lakes" area of the central Texas "Hill Country," and a portion of the Austin/San Marcos MSA. The Non-MSA extends into the southern half of Burnet County; southeastern corner of Llano County; the eastern half of Gillespie County; and all of Blanco County. CNB's branch in Dripping Springs is the only branch located in the Austin/San Marcos MSA. This MSA portion of the AA is comprised of the northern half of Hays County. Total population for the bank's entire AA is approximately 69,000. For the purposes of this examination, the bank's assessment area was expanded to include adjacent whole block numbering areas (BNAs) and census tracts, and is divided into MSAs and Non-MSAs. Specific demographic data for the AA is listed on the following page.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA | | |
|---|----------------|------------|
| | Non-MSA | MSA |
| <i>Population</i> | 14,094 | 6,178 |
| Number of Families | 19,031 | 7,720 |
| Number of Households | | |
| <i>Geographies</i> | | |
| Number of Census Tracts/BNA | 16 | 4 |
| % Low-Income Census Tracts/BNA | 0 | 0 |
| % Moderate-Income Census Tracts/BNA | 0 | 0 |
| % Middle-Income Census Tracts/BNA | 12 | 2 |
| % Upper-Income Census Tracts/BNA | 4 | 2 |
| <i>Median Family Income (MFI)</i> | | |
| 1990 MFI for AA | 34,700 | 58,900 |
| 2000 HUD-Adjusted MFI | 35,800 | 64,700 |
| 2001 HUD-Adjusted MFI | | |
| <i>Economic Indicators</i> | | |
| Unemployment Rate | 2.12 | 1.99 |
| 2001 Median Housing Value | 69,942 | 95,980 |
| % of Households Below Poverty Level | 15.79 | 8.10 |

These areas are made up of contiguous census tracts or BNAs, which surround and include each banking office. The consolidated AA includes a total of 16 BNAs and 4 census tracts, and there are no low- or moderate-income (LMI) areas. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. Principal non-agricultural employers in this area include local city governments, school districts, retail stores (Wal-Mart), supermarkets (HEB and Super S), and utility companies (Pedernales Electric Co-Op). Further description of each area is presented on the following pages.

Description of Non-MSA AA - Blanco, Burnet, Gillespie, and Llano Counties

The population of the Non-MSA AA, which includes Blanco County and portions of Burnet, Gillespie, and Llano counties, is approximately 47,352 based on 1990 Census data. There are 27,000 housing units in the AA of which 53% are owner-occupied, 16% are renter-occupied, and 30% are vacant. Approximately 18% 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 66%. Many of the communities in these counties are growing retirement areas. According to 1990 Census data, 24% of the total population is over 65 years of age. Income information from the United States Department of Housing and Urban Development (HUD) reveals that the median family income (MFI) for non-MSAs in Texas was \$35,800 for 2001. Ranching, tourism, recreation, and granite mining also provide economic support.

Blanco County includes the cities of Blanco, Johnson City, and Round Mountain. The 1990 Census designated only two BNAs in this area, both of which are considered middle-income areas.

The portions of Burnet County in CNB's AA include the communities of Marble Falls, Granite Shoals, Meadowlakes, and portions of Horseshoe Bay, Bertram, and Burnet. There are seven BNAs in this area; all but one are considered middle-income areas. The exception is an upper-income area in Meadowlakes and Marble Falls. CNB's AA in Gillespie County includes the community of Stonewall and the city of Fredricksburg and is comprised of four BNAs. Three of the BNAs are middle-income areas and one is an upper-income area. Stonewall is approximately 15 miles from Fredricksburg and is not an incorporated City. CNB's AA in Llano County includes the communities of Sunrise Beach, Kingsland, and a portion of Horseshoe Bay. This area is comprised of three BNAs, two are upper-income areas and one is a middle-income area in Kingsland.

Description of MSA AA - Austin/San Marcos MSA

CNB's MSA AA includes a portion of Hays County, which is located in the Austin/Marcos MSA, and includes the cities of Dripping Springs, Wimberley, and Mountain City. There are four census tracts in this area, two are upper- and two are middle-income areas. The population of the northern portions of Hays County located in the Austin/San Marcos MSA, is approximately 21,447 based on 1990 Census data. There are 9,088 housing units in the AA of which 68% are owner-occupied, 17% are renter-occupied, and 15% are vacant. Approximately 12% of the families in the AA are considered low-income. Moderate-income families approximate 15% of the population, while middle- and upper-income families comprise the remaining 73%. Income information from HUD reveals that the MFI level for metropolitan areas in Texas was \$64,700 in 2001. The outward expansion of suburban Austin development has extended into the market area in Dripping Springs along Highway 290, and has contributed to the economic growth of the city. Employment opportunities also extend beyond Dripping Springs into the Austin area. CNB's branch in Dripping Springs has been in business since 1996.

We contacted two community leaders during this evaluation in order to gather more current information on the nature of the community and potential lending opportunities in the AA. The contacts were the Assistant City Manager for the City of Marble Falls and a Justice of the Peace. These individuals stressed the need for affordable housing for LMI families within the AA. There is also pressure for economic development within the area to lure in new businesses and residents. Developers within the surrounding areas of Marble Falls focus most of their projects on high-end home construction and are sometimes restricted by the cost of digging through granite, the cost of which is passed on to the consumer. Individuals moving into the area who are willing to pay inflated prices increase the valuation of real estate in turn impact the affordability of housing. The contacts further stated that CNB and other financial institutions are active in the community and responsive to the credit needs in the AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Based on our analysis and the demographic characteristics, management is performing in an outstanding manner in meeting the credit needs of its AA, including LMI individuals, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

Since the last CRA evaluation, CNB's LTD ratio has increased from 52% on March 30, 1998, to 59% on December 31, 2001. What the figures don't reflect is a significant volume of residential loans that the bank has funded and then moved to the secondary market where more advantageous loan terms can be obtained. For years 2000 and 2001, the bank funded and then placed in the secondary market 23 loans totaling \$3,705 thousand and 19 loans totaling \$4,384 thousand respectively. The estimated impact on the bank's LTD ratio, based on figures provided by the bank's lending staff, would reflect a LTD ratio in excess of 70% as of December 31, 2001. Loan growth has been strong in 2001. On December 31, 2001, CNB reported loan growth of 23% as compared to peer growth of only 7%. The majority of CNB's loan growth has been in the robust real estate markets of Marble Falls and Dripping Springs.

| Institution | Assets as of 12/31/01 (*) | Average LTD Ratio % (**) |
|------------------------------|--------------------------------------|-------------------------------------|
| American Bank TX NA | 120,000 | 75.74 |
| Arrowhead Bank | 100,000 | 33.25 |
| Blanco NB | 83,000 | 63.66 |
| Highland Lakes Banks | 80,000 | 45.71 |
| Security State B&TC | 447,000 | 68.25 |
| Johnson City Bank | 42,000 | 69.82 |
| <i>Cattleman's NB</i> | <i>73,276</i> | <i>52.39</i> |

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

** The average LTD ratio for CNB and for the six competing banks is for the period from January 1998 through December 2001.

CONCLUSIONS ABOUT Non-MSA PERFORMANCE CRITERIA

Lending in Assessment Area

A substantial majority of the bank's loans, 83% of the number and 86% of the dollar amount, were made within its AA. In order to assess performance for these criteria, a sample of 26 commercial loans, 24 consumer loans, and 25 real estate loans (residential 1-4 family and commercial real estate) was reviewed. Findings are detailed below.

| TOTAL LOANS REVIEWED | | | | | | | | |
|-----------------------|--------------------|-----------|--------------|-----------|------------------------|-----------|------------|-----------|
| LOAN TYPE | In Assessment Area | | | | Out Of Assessment Area | | | |
| | # | % | \$ (000s) | % | # | % | \$ (000s) | % |
| Commercial | 21 | 81 | 378 | 92 | 5 | 19 | 34 | 8 |
| Consumer | 21 | 87.5 | 248 | 91 | 3 | 12.5 | 24 | 9 |
| Real Estate | 20 | 80 | 3,717 | 85 | 5 | 20 | 645 | 15 |
| Total Reviewed | 62 | 83 | 4,343 | 86 | 13 | 17 | 702 | 14 |

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

The loan portfolio reflects a good distribution of residential, consumer, and commercial loans among individuals of various income levels and businesses of different sizes within the AA. The analysis included a sample of 20 residential, 20 consumer, and 21 commercial loans originated during the period of 1998 through December 2001 and were in the bank's AA.

The analysis reflected a good consumer loan penetration and distribution to LMI households. However, the bank's penetration of residential loans to low-income households is below demographic characteristics. Bank personnel indicated that there are very few homes available in the AA at selling prices that low-income families can afford. Community contacts supported management's comments on the lack of affordable housing. The bank has been very successful in meeting moderate-income family residential real estate demands. The following charts detail findings from samples of loans in the Non-MSA AA taken during the examination.

| RESIDENTIAL REAL ESTATE | | | | | | | | |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Families ¹ | 18 | | 16 | | 23 | | 43 | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 5 | 3 | 30 | 37.8 | 20 | 7.7 | 45 | 51.5 |

| CONSUMER | | | | | | | | |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households ² | 21.3 | | 15.3 | | 17.4 | | 46 | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 15 | 1.5 | 20 | 5.6 | 20 | 18.7 | 45 | 74.2 |

The vast majority of CNB’s commercial loans (including agricultural-related) are to “small businesses with revenues less than 1MM.” Management continues to focus on providing loans that will enhance the local economy. The following chart reflects our analysis of a sample of 21 commercial loans made since the last CRA evaluation that are in the bank’s AA.

| BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES | | |
|---|--------------|--------------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses ³ | 95 | 6 |
| % of Bank Loans in AA # | 95.2 | 4.8 |
| % of Bank Loans in AA \$ | 82.5 | 17.5 |

Geographic Distribution of Loans

As are no LMI geographies located in the bank’s AA, an analysis of loan distribution by geographic area would not provide a meaningful analysis.

CONCLUSIONS ABOUT MSA PERFORMANCE CRITERIA

Lending in the Assessment Area

A substantial majority of the bank’s loans were made within its AA. In order to assess performance for these criteria, we reviewed a sample of 12 commercial loans (CNB’s primary products include consumer and mortgage loans), 20 consumer loans, and 28 mortgage-related loans as reported on CNB’s 2000 and 2001 Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR). Our analysis indicated that 92% of the number and 88% of the dollar amount of commercial loans were made within the AA. We determined that 85% of the number and 84% of the dollar amount of consumer loans were made within the bank’s AA. A review of the HMDA Report, revealed that 100% of the 28 loans reported were within CNB’s AA.

Loans to Borrowers of Different Income Levels and to Businesses of Different Sizes

Lending to LMI families in the MSA AA significantly exceed demographic characteristics. A sample of consumer and real estate loans was reviewed to assess the distribution of loans to borrowers of different income levels in the Dripping Springs area. The table below reflects the distribution of 17 loans from our consumer sample and 7 loans reported on CNB’s 2000 and 2001 HMDA LAR.

| RESIDENTIAL REAL ESTATE AUSTIN/SAN MARCOS MSA | | | | | | | | |
|--|--------------|--------------|-----------------|--------------|---------------|--------------|--------------|--------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Families | 12 | | 15 | | 23 | | 50 | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| HMDA | 14.29 | 13.25 | 28.57 | 13.25 | 28.57 | 44.15 | 28.57 | 29.35 |

| CONSUMER AUSTIN/SAN MARCOS MSA | | | | | | | | |
|---------------------------------------|--------------|--------------|-----------------|--------------|---------------|--------------|--------------|--------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 15 | | 12 | | 14 | | 59 | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 29.41 | 26.21 | 29.4 | 30.42 | 17.6 | 15.23 | 17.6 | 28.14 |

CNB also originates commercial loans (including agricultural-related) out of its Dripping Springs branch, the vast majority of which have been to “small businesses with revenues less than 1MM.” Management continues to focus on providing loans that will enhance the local economy. The following chart reflects a sample of 12 commercial loans made since the last evaluation located in the MSA AA.

| BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES | | |
|---|--------------|--------------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses ³ | 95 | 5 |
| % of Bank Loans in AA # | 92 | 8 |
| % of Bank Loans in AA \$ | 87 | 13 |

Geographic Distribution of Loans

All the census tracts surrounding the Dripping Springs office are either upper- or middle-income areas; consequently, a geographical analysis by census tract would not provide meaningful information.

Qualified Investments and Community Development Services

CNB is participating in a loan program together with several area banks. CNB’s portion is \$650 thousand, for a housing development project in conjunction with the Marble Falls Housing Authority. The purpose of this project is to provide LMI housing in Marble Falls. Funding provided by CNB and American Bank was used to help refinance existing properties and to develop others. Current properties include a 24-unit multi-family apartment complex and a 54-unit townhouse complex. One of the properties is subject to deed restrictions that require rents to be affordable to low-income residents.

Responses to Complaints

No complaints relating to CNB's CRA performance have been received during this evaluation period.

Fair Lending Review

An analysis of 1997 residential mortgage loans, as well as a review of applications and denials was performed according to the OCC's risk-based fair lending approach. No evidence of disparate treatment or illegal discrimination was found. That analysis revealed no basis for the OCC to conduct a comprehensive fair lending examination in connection with this CRA evaluation. The latest fair lending examination was performed on January 1998.