



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 11, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Waggoner National Bank of Vernon
Charter Number 5203

1818 Texas Street
Vernon, TX 76384

Office of the Comptroller of the Currency

FORT WORTH Field Office
9003 Airport Freeway Suite 275
North Richland Hills, TX. 76180-9127

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.

Waggoner National Bank (WNB) lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- WNB's average loan-to-deposit ratio of 78.5% meets the standards for satisfactory performance given the bank's size, financial condition, local competition, and assessment area's credit needs.
- A significant majority of loans sampled, 91% in number and 94% in dollar volume, are originated in the bank's assessment area (AA).
- The distribution of loans to borrowers of different incomes shows significant penetration of loans to individuals of different income levels and small businesses.

SCOPE OF EXAMINATION

WNB has two AAs; Wilbarger County and the two western census tracts of Wichita County. The vast majority of lending activity occurs in the Wilbarger AA, which is the focus of our review. We did not review activity out of the Wichita AA. Our review focused on WNB's three primary product lines: 1-4 single family residence (SFR), consumer auto and agriculture land loans. WNB has a fourth primary product line; commercial real estate, however this portfolio contains fewer loans at higher amounts and there was not a sufficient number of loans in this portfolio to draw a reasonable sample. Our samples included;

- All conventional, purchase, owner-occupied SFR loans generated since the prior CRA examination (February 17, 2007).
- 20 loans from the consumer auto portfolio.
- 20 loans from the agriculture land portfolio.

Regarding the consumer auto and agriculture land samples, we omitted loans that were made outside of the AA and replaced them with loans inside the AA to assess the ***Lending to Borrowers of Different Incomes, Lending to Businesses of Different Sizes*** component. There were no low- or moderate-income geographies in the Wilbarger AA and a ***Geographic Distribution of Loans*** analyses would not be meaningful. The loans included in the sample originated between February 18, 2007 and March 14, 2011, and were selected at random.

DESCRIPTION OF WAGGONER NATIONAL BANK OF VERNON

WNB is a \$237 million community bank located in Vernon, Texas, which is situated in Wilbarger County. The main banking facility is located in downtown Vernon, which is approximately 50 miles west of Wichita Falls, Texas. WNB has one branch located in Electra, Texas (Wichita County), which is 20 miles east of Vernon. The main bank and branch facility include full-service lobbies, drive-through facilities, and automated teller machines (ATM). There is an additional ATM located at the Vernon United grocery store.

WNB is locally-owned and managed and is a subsidiary of Waggoner National Bancshares, Inc. The parent company does not own any other community banks. WNB has no operating subsidiaries and has had no merger or acquisition activity during the evaluation period.

WNB has a diversified loan portfolio, which includes business, agriculture, and consumer lending. WNB offers a wide variety of loan and deposit products for both individuals and businesses. In addition, the bank offers Internet-based banking services, including account inquiries, intra-bank transfers and bill pay at no cost.

As of March 31, 2011, WNB had total assets of \$237 million, total loans of \$151 million, and total deposits of \$204 million. The following table presents WNB's loan information as of March 31, 2011.

Loan Portfolio Composition As of March 31, 2011		
Loan Category	\$ (000)	%
Commercial Real Estate	40,005	26.4
Farm Land	27,110	17.9
1-4 Single Family Residence	23,107	15.3
General Consumer	21,856	14.4
General Commercial	17,547	11.6
Other	13,873	9.2
Agriculture Products	7,939	5.2
Total	151,437	100%
Total Loans as a % of Total Assets	64%	

Source: March 31, 2011 Report of Condition

The most recent CRA examination was as of February 17, 2007, which resulted in a "Satisfactory" rating. There are no legal or financial impediments to WNB's ability to meet the credit needs of its AAs.

We made two community contacts, which disclosed that the local financial institutions are meeting the credit needs of the AA. The main credit needs identified are farm land, small business and general consumer (including SRF credit).

DESCRIPTION OF WILBARGER AND WICHITA ASSESSMENT AREAS

WNB defines its AAs as Wilbarger County and two western census tracts in Wichita County, which contains the Electra, Texas branch. The AAs are contiguous and for analysis purposes, data from each AA was aggregated. The main facility in Vernon, Texas (Wilbarger AA) generates the vast majority of lending activity (87%). This AA is not part of any Metropolitan Statistical Area (MSA) and it contains four census tracts, none of which are low- or moderate-income. The Wichita AA is part of the Wichita Falls MSA and contains two census tracts, one of which is moderate-income. The AAs meet the legal requirements and do not arbitrarily exclude low- or moderate-income areas. Specific and economic data for the AAs are listed below.

Demographic and Economic Characteristics of Wilbarger and Wichita Assessment Areas (aggregated)	
Population	21,249
Number of Families	5,696
Number of Households	8,113
Geographies	
Number of Census Tracts	6
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	16.67%
% Middle-Income Census Tracts	33.33%
% Upper-Income Census Tracts	50.00%
% NA Census Tracts	0.00%
Median Family Income (MFI)	
2000 MFI for AA	\$38,000
2010 HUD-Adjusted MFI	\$48,733
Economic Indicators	
Unemployment Rate	2.25%
2000 Median Housing Value	\$46,320
% Households Below Poverty Level	13.69%

Source: 2000 Census data and HUD updated income data.

The area has some diversity with two major employers; North Texas State Hospital and Tyson Foods. Additionally, agriculture (farming and ranching) and the oil and gas industries have a significant impact on the local economy. The primary credit need, as identified by the community contacts, is agriculture-related, which would include land and operating loans. Additional credit needs identified were small business and general consumer, which includes SFR loans. Other major employers in the area include the school districts, hospitals, and city and county governments.

We considered information from two community contacts. According to the contacts, the local financial institutions are fulfilling the immediate credit needs of the community.

And, WNB plays an active role in the communities served, and ensures that the needs of low- and moderate-income individuals are met. WNB places a strong emphasis on establishing customer relationships and providing a high level of service.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our conclusions in this section are based on the lending activity since the previous CRA examination dated February 17, 2007. We used loan, borrower income, and AA data provided by the bank and tested it for accuracy. We selected samples from the SFR, agriculture land and consumer auto portfolio to evaluate the bank's lending performance within the AA (refer to the **SCOPE OF EXAMINATION** section for details). For the **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes** we replaced loans originated outside of the AA with loans originated inside the AA.

Loan-to-Deposit Ratio

WNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance.

The LTD ratio measures the extent to which the subject bank has returned the deposits it has received to the community in the form of loans. The average of such ratios for each quarter-end since the last CRA examination was used to determine performance in this area. The average LTD ratio for WNB since the last CRA examination was 78.5%. The AA and surrounding counties contain 15 other state and national institutions with which to compare WNB. The average LTD ratios, for the same period, of these institutions ranged from 21% to 95%. WNB's LTD ratio is reasonable and reflects satisfactory efforts to meet the credit needs of the communities served.

Lending in Assessment Area

WNB's lending within the AA exceeds the standards for satisfactory performance.

This section quantifies what proportion of the bank's lending activity was within its AA. An institution that exhausts its resources lending in other areas, to the exclusion and detriment of its own AA, would be considered less than satisfactory. However, a significant majority of WNB's lending efforts are concentrated within the Wilbarger AA.

To assess the WNB's performance, we used the samples described above. Based on our sample results, a significant majority of loans were originated within the Wilbarger AA. The following tables reflect the results of our assessment of WNB's efforts to lend within its AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
SFR	95	95%	\$4,640	97%	5	5%	\$150	3%
Agriculture Land	16	80%	\$1,674	89%	4	20%	\$211	11%
Consumer Auto	16	80%	\$105	84%	4	20%	\$20	16%
Total Reviewed	127	91%	\$6,419	94%	9	9%	\$381	6%

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

WNB’s loan distribution to the different household and family income levels as well as businesses of different sizes exceeds the standards for satisfactory performance.

The bank obtains and analyzes applicant income information during the loan decision process; however this information is not used for CRA purposes. To assess WNB’s efforts, we used the samples described above. Also, WNB does not have a minimum loan amount in policy. We reviewed the loan trial and noted a number of loans for \$1,000 or less (the lowest was \$212.76), and noted an additional number of other credits between \$1,000 and \$1,500. These combined factors indicate the bank is meeting the credit needs of the community.

Borrower Distribution of SFR Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Consumer Loans	17%	7%	18%	17%	26%	19%	39%	57%

Borrower Distribution of Consumer Auto Loans								
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	23%	20%	17%	45%	20%	25%	40%	10%

A significant majority of WNB’s commercial loans are to businesses with gross annual revenues of less than \$1 million. The following tables illustrate the lending distribution to businesses located within the bank's assessment area.

Borrower Distribution of Agriculture Land Loans				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	99%	0%	1%	100%
% of Bank Loans in AA by #	85%	0%	15%	100%
% of Bank Loans in AA by \$	86%	0%	14%	100%

Geographic Distribution of Loans

This analysis would not be meaningful as there are no low- or moderate-income census tracts in the Wilbarger Assessment Area.

Responses to Complaints

The bank has not received any CRA-related complaints since the prior CRA examination.

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.