



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

April 5, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

City National Bank of San Saba
Charter Number: 10806

209 E Brown Street
San Saba, Texas 76877

Office of the Comptroller of the Currency
San Antonio – North Field Office
10001 Reunion Place, Suite 250
San Antonio, TX 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.”

City National Bank (CNB) of San Saba’s lending performance meets the standards for satisfactory performance in meeting the known credit needs of its community.

- The bank’s quarterly loan-to-deposit (LTD) ratio of 25% is below average. However, the ratio is considered reasonable due to the rural location, significant local competition, and limited lending opportunities in the assessment area (AA), and the large amount of public funds on the books.
- The vast majority of the loans were made within the bank’s AA. Approximately 94% of the dollar volume of loans was to borrowers within the bank’s AA.
- CNB has demonstrated a willingness to lend to commercial and agricultural businesses of different sizes.

SCOPE OF EXAMINATION

CNB was evaluated under the small bank examination procedures, which includes a lending test. The lending test evaluates the bank’s record of meeting the credit needs of its AA through its lending activities. The bank’s two largest loan products are Agriculture/Farm and Commercial. The agricultural and commercial lending test for CNB covers its performance from January 1, 2008, to April 1, 2010, and is representative of its lending strategy since the last CRA examination dated October 18, 2005.

DESCRIPTION OF INSTITUTION

CNB is an intrastate bank established in 1883. As of December 31, 2009, assets totaled approximately \$52 million. CNB is owned by CNB National Financial Corporation, a one-bank holding company. Complete banking services are provided Monday through Friday at the main office and drive-in facility. The bank offers debit cards, but does not own an automated teller machine (ATM).

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 October 18, 2005, and CNB was rated “Satisfactory” under the small bank criteria.

As of December 31, 2009, total loans were \$12 million, or 23% of total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Summary by Loan Product December 31, 2009		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Agricultural/Farm	5,043	43%
Commercial (Including Real Estate)	5,011	42%
Consumer	1,420	12%
Residential	396	3%
Other Loans	6	0%*
Total	11,876	100%

*Information from December 31, 2009 Call Report

*Other loans represent 0.05%

CNB offers a variety of standard deposit and loan products. Deposit customers can choose from regular checking, savings, money markets, NOW, Super NOW, or certificates of deposit (CDs) products. The NOW account requires a minimum balance of \$1,500 and the Super NOW account requires a minimum balance of \$2,500. Customers can access their deposit, loan, or safety deposit box accounts as well as bill pay through Internet banking. Telephone banking is also available as a courtesy. The bank offers some financial tools on their website to assist customers in financial planning.

DESCRIPTION OF ASSESSMENT AREA(S)

The Community Reinvestment Act requires a financial institution to define the AA in which it will be evaluated. CNB has one AA consisting of San Saba County. San Saba County includes two middle-income census tracts. San Saba is the county’s largest city and county seat with a population of 2,637 according to the 2000 census. See the table below for demographic information.

Demographic Information for City National Bank AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	2	0%	0%	100%	0%
Population by Geography	6,186	0%	0%	100%	0%
Owner-Occupied Housing Units by Geography	1,731	0%	0%	100%	0%
Businesses by Geography	727	0%	0%	100%	0%
Farms by Geography	87	0%	0%	100%	0%
Family Distribution by Income Level	1629	18%	20%	24%	38%
Household Distribution by Income Level	2,290	24%	16%	21%	39%
Additional Demographic Data					
Census Median Family Income (MFI)	\$36,380	Median Housing Value		\$56,369	
HUD – Adjusted MFI: 2009	\$45,600	Households Below Poverty Level		15%	
HUD – Adjusted MFI: 2008	\$43,600	Unemployment Rate		1.50%	
HUD – Adjusted MFI: 2007	\$41,800				

Economic conditions within the AA continue to fare better than the national economy. CNB operates in a rural area with little competition, and is not in close proximity to a metropolitan statistical area. The majority of the 2,290 households are considered to be part of the upper-income level. However, the county’s poverty level is 15%, and a quarter of the county’s households are considered low-income.

According to the US Bureau of Labor Statistics, the seasonally-adjusted unemployment rate for the nation was 9.7% as of March 2010. The unemployment rate for the state of Texas was 8.2% according to the Bureau’s most updated state information as of February 2010. Unemployment rates in CNB’s AA are well below national and state averages at 1.5%.

Service, agriculture, and retail are the AA’s largest industries. San Saba is designated as the Pecan Capital of the World. Of the 727 total businesses in the AA, 92% are single location business with their sole operation located in San Saba County. The majority of businesses (73%) have revenues below \$1 million.

In conducting the assessment of the bank’s CRA performance, we contacted two members of local community government. One contact stated that local farmers and ranchers were affected by last year’s drought and late freeze. The other contact was optimistic about San Saba County’s economy, and said they were not seeing the negative effects like other areas. Both contacts expressed that the community banks were meeting the credit needs of individuals in the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending Test

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

Loan-to-Deposit Ratio

The LTD ratio has been averaged over the past seventeen quarters since the last CRA examination. The LTD ratio for CNB averaged 25%. To assess CNB’s performance, we compared it with three other similarly situated banks. LTD ratios ranged from 25% to 73% with an overall average of 54%. Farmers State Bank (FSB) in Bertram represents the lowest LTD ratio. This institution is the most similar in size and community profile. FSB has one location in a small community of 1,122 inhabitants. CNB has had a large amount of public funds on the books which are not available to lend. Adjusting the LTD ratio for these funds increases the December 31, 2009 LTD ratio to 35%. CNB’s below average LTD is reasonable considering the rural location, significant local competition, limited lending opportunities, and the amount of public funds on the books.

Institution	Total Assets As of 12/31/09 \$(000s)	Average Quarterly LTD Ration As of 12/31/09
The Commercial Bank, Mason	\$26,657	72.52%
Arrowhead Bank, Llano	\$120,993	63.47%
Farmers State Bank, Bertram	\$33,661	24.79%
<i>City National Bank of San Saba, San Saba</i>	\$51,753	24.86%

Lending in Assessment Area

The vast majority of number and dollar amount of loans were made within the AA. Out of the first twenty loans reviewed in the commercial sample, only one was found to be out of the bank’s AA. The same was true for the agricultural sample. A total dollar volume of \$1.1 million loans were reviewed in both samples. About 93% of the dollar amount of loans was inside the AA. The bank is doing an exceptional job allocating their lending within San Saba County. Both loans outside the AA were located in bordering counties. The table on the following page illustrates the results of our analysis.

Table 1 Lending in San Saba County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	19	95%	1	5%	20	580,182	90.16%	63,333	9.84%	643,515
Agriculture/Farm	19	95%	1	5%	20	444,319	97.7%	10,450	2.30%	454,769
Totals	38	95%	2	5%	40	1,024,501	93.28%	73,783	6.72%	1,098,284

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

Commercial Loans

The majority of the number of loans was made to businesses with revenues below \$1 million. The majority of the dollar volume of loans was to businesses above this mark. However, this is reasonable as the largest loans in the sample were to large businesses. The bank is satisfactorily lending to small business within the AA. The following table illustrates the bank’s lending in its AA to businesses with annual revenues above and below \$1 million.

Table 2A Borrower Distribution of Loans to Businesses in San Saba				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69.84%	3.13%	27.03%	100%
% of Bank Loans in AA by #	65%	35%	N/A	100%
% of Bank Loans in AA by \$	34.03%	65.97%	N/A	100%

Agricultural Loans

CNB’s distribution of loans to small agricultural/farm establishments, as defined as having annual gross revenues of less than \$1 million, is excellent. According to the sample, the bank lends 100% to borrowers within their AA with revenues less than \$1million. Statistics show 97% of the area farms have revenues below \$1million. Therefore, CNB’s lending is representative of the area’s needs. Please see the following table for further details.

Table 2A Borrower Distribution of Agricultural/Farm Loans in San Saba County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	97.07%	1.15%	1.15%	100%
% of Bank Loans in AA by #	100%	0%	N/A	100%
% of Bank Loans in AA by \$	100%	0%	N/A	100%

Geographic Distribution of Loans

CNB's AA consisted of middle income census tracts, and no low to moderate income tracts. Therefore, a meaningful geographic distribution analysis could not be performed.

Responses to Complaints

CNB has not received any complaints or public comments regarding its CRA performance 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.