



PUBLIC DISCLOSURE

September 14, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Commercial National Bank of Brady
Charter Number 8573

105 East Second Street
Brady, Texas 76825

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

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.

Commercial National Bank of Brady’s (CNBB) lending performance reflects a satisfactory response to meeting community credit needs in its assessment area (AA). Major factors that support the rating include:

- The average quarterly loan-to-deposit (LTD) ratio since the last examination is reasonable.
- CNBB originated a substantial majority of loans inside its AA.
- Lending activities reflect reasonable penetration to businesses of different sizes and borrowers of different incomes.

Scope of Examination

We evaluated CNBB’s lending performance using Small Bank evaluation procedures. The examination scope covered the period from January 1, 2013 to June 30, 2015. We analyzed loan originations during this evaluation period and identified commercial (including real estate) and residential loans as primary products. We selected a sample of loans for each primary product and used these samples to calculate lending inside the AA and borrower distribution.

Description of Institution

CNBB, an intrastate rural community bank, is a wholly owned subsidiary of Commercial National Corporation, a one-bank holding company. CNBB’s main office is located in Brady, Texas, approximately 140 miles northwest of Austin. CNBB also has a full service branch 40 miles east of Brady in San Saba, Texas. Both locations have drive-in facilities and an (ATM).

CNBB offers traditional banking services such as consumer, residential, business, and farm loans, and various deposit products, at both locations from Monday through Friday and on Saturday mornings. Customers have 24-hour service through mobile, Internet and telephone banking and can retrieve account balances and transfer funds.

As of June 30, 2015, CNBB had total assets of \$158 million with 46% centered in the loan portfolio. As reflected in the following table, commercial and residential loans comprise the majority of the loan portfolio.

LOAN PORTFOLIO SUMMARY AS OF JUNE 30, 2015		
Loan Category	Dollar Volume (000's)	% of Total Loans
Commercial (including Real Estate)	28,765	40%
Residential	26,054	36%
Ag Related (Production, Farm Land)	12,654	17%
Consumer Loans	4,795	7%
Other Loans	194	0%
Total	72,462	100%

Source: June 30, 2015 Call Report; Other loans represent 0.27%

There are no legal, financial, or other factors hindering CNBB’s ability to meet the credit needs of its AA. CNBB’s current business strategy is to promote economic development in its AA through active community involvement and by continuing to originate commercial and residential loans as primary loan products. The prior CRA examination, dated August 17 2009, assigned an overall “Satisfactory” rating to CNBB’s lending performance.

Assessment Area

CNBB designated two AAs - McCulloch County and San Saba County. For CRA analysis purposes, we combined the two counties into one AA because the counties are contiguous and both are non-metropolitan areas. The following table reflects demographic data for the combined AAs.

DEMOGRAPHIC INFORMATION FOR MCCULLOCH COUNTY AND SAN SABA COUNTY					
	#	% Low	%Moderate	%Middle	%Upper
Geographies (Census Tracts)	5	0	0	3	2
Population by Geography	14,414	0	0	60%	40%
Owner Occupied Homes by Geography	3,867	0	0	76%	24%
Businesses by Geography	1,121	0	0	87%	13%
Farms by Geography	181	0	0	69%	31%
Family Distribution by Income Level	3,503	27%	15%	18%	40%
Household Distribution by Income Level	5,220	30%	16%	17%	37%
Census Median Family Income (MFI)	\$47,817	Median Housing Value		71,108	
HUD – Adjusted MFI: 2015	\$52,800	Households Below the Poverty Level		20.84%	
HUD – Adjusted MFI: 2014	\$51,600	Unemployment Rate		4.16%	
HUD – Adjusted MFI: 2013	\$50,500				

Source: U.S. Census data

Description of McCulloch County

CNBB designated McCulloch County, a non-metropolitan statistical area, as an AA. Principal communities in the county include the cities of Brady, Melvin, Voca, Rochelle, and Lohn. McCulloch County consists of one middle-income distressed census tract (CT) and two upper-income CTs. As defined, a distressed CT is a non-metropolitan middle-income geography located in counties with an unemployment rate of at least 1.5 times the national average; a poverty rate of 20% or more; or a population loss of 5% or more in a five-year period preceding the most recent decennial Census. The one middle-income CT in McCulloch County is distressed because the poverty rate for this county was 23% at the 2010 Census.

With 5,476 of the county’s 8,283 residents (or 33%), Brady is the most populous city and the county seat. Major employers include Brady Independent School District, Loadcraft Industries, Wal-Mart, Carmeuse Industrial Sands, the City of Brady, and Cadre Proppants.

According to the US Bureau of Labor Statistics, the seasonally adjusted unemployment rate for the nation was 5.1% as of August 2015, while the unemployment rate for the state of Texas was 4.1%. The McCulloch County unemployment rate of 4.5% is higher than the Texas rate and lower than the national unemployment rate.

During a CRA evaluation, it is customary for examiners to contact various persons and/or organizations within the bank's AA to gain insight on local economic conditions and credit needs. We also evaluate credit needs by reviewing the CRA Performance Evaluations (PEs) of comparable banks and those operating in the same areas. For this PE, we met with a local community member and discussed community needs and how banks performed in meeting those needs. The contact said the area is struggling due to the decrease in oil and gas prices. Unemployment levels have increased, and if oil prices continue at the current low levels or decrease further, it may continue to adversely impact the local population. Local community banks are active in community events and have an overall good reputation. Banks meet the local credit needs, which include small personal loans, automobile loans, and mortgages. However, banks have limited community development opportunities due to the economic downturn.

Description of San Saba County

CNBB designated San Saba County, a non-metropolitan statistical area, as an AA. San Saba County consists of two middle-income distressed CTs. The two middle-income CTs in San Saba County are distressed because the poverty rate for this county was 22% at the 2010 Census.

Service, agriculture, and retail are the largest industries in the county. San Saba is the largest city and county seat with a population of 3,099 according to the 2010 Census. San Saba is known as the "Pecan Capital of the World." Of the 523 total businesses in the AA, 92% are single location business with their sole operation located in San Saba County. The majority of businesses (69%) have annual revenues below \$1 million.

According to the US Bureau of Labor Statistics, the seasonally adjusted unemployment rate for the nation was 5.1% as of August 2015, while the unemployment rate for the state of Texas was 4.1%. The San Saba County unemployment rate of 5% is higher than the Texas rate and just below the national unemployment rate.

San Saba County has strong financial competition with credit needs centered in small business and small farm lending. There are two other financial institutions located within the town of San Saba. Both offer similar loan and deposit products as CNBB.

Drought conditions have adversely affected the local economy. The U.S. Department of Agriculture (USDA) designated San Saba County as a primary natural disaster area due to drought during the entire assessment period. This designation allows eligible farm operators to qualify for low interest emergency loans from USDA's Farm Service Agency (FSA).

For the PE in this county, we met with a local community member and discussed community needs and how banks performed in meeting those needs. The contact expects the economy to improve as new businesses open, and the new nursing home and shopping center are built. The

activities should provide some job growth and possibly population growth. The local banks have positive reputations for meeting credit needs, but some local entrepreneurs have had problems securing small business loans. The contact believes small community banks are risk averse to business loans.

Conclusions With Respect to Performance Criteria

Loan-to-Deposit Ratio

CNBB’s average quarterly LTD ratio is reasonable. To assess CNBB’s performance, we compared its average quarterly LTD ratio to that of three other banks in the AA. As reflected in the following table, the average LTD ratios for the other three banks ranged from 22% to 61%. The overall average ratio for all three banks is 45%. CNBB’s ratio of 54% is higher than the overall average ratio.

Institution	Total Assets as of June 30, 2015 (000s)	Average Quarterly Loan-to-Deposit Ratio
Arrowhead Bank	\$159,479	61%
Commercial National Bank	\$156,606	54%
Brady National Bank	\$109,341	54%
City National Bank – San Saba	\$56,180	22%

Source: Call Reports from June 30, 2009 through June 30, 2015

Lending in Assessment Area

CNBB exceeds the standards for satisfactory performance for lending within its AA. As the following table reflects, CNBB originated a substantial majority of loans, 95% of the number and 83% of the dollar volume, inside the AA.

LENDING WITHIN THE ASSESSMENT AREA										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	18	90	2	10	20	1,583	88	371	12	1,954
Commercial	20	100	0	0	20	223	100	0	0	223
Totals	38	95	2	5	40	1,806	83	371	17	2,177

Source: Loan sample

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

Overall, CNBB’s distribution of loans to borrowers of different income levels and to businesses of different sizes is reasonable.

Residential Loans

Residential lending activity reflects reasonable distribution of loans originated to borrowers with low- or moderate-income levels. The percentage of loans to these borrowers is somewhat lower than the percentage of low- or moderate-income families in the AA.

BORROWER DISTRIBUTION OF RESIDENTIAL LOANS IN THE McCULLOCH/SAN SABA ASSESSMENT AREA								
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
Home Loans	30%	10%	16%	20%	17%	13%	37%	57%

Source: Loan sample; U.S. Census data

Business Loans

Commercial lending activity reflects reasonable distribution of loans originated to businesses with annual revenues less than \$1 million (small businesses). The percentage of loans originated to small businesses is somewhat lower than the percentage of small businesses in the AA.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN THE McCULLOCH/SAN SABA ASSESSMENT AREA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	73%	3%	24%	100%
% of Bank Loans in AA by #	70%	30%	0%	100%
% of Bank Loans in AA by \$	74%	26%	0%	100%

Source: Loan sample; Dunn and Bradstreet data

GEOGRAPHIC DISTRIBUTION OF LOANS

Because the AA does not include any low- or moderate-income CTs, we could not perform a meaningful geographic analysis. However, the three middle-income CTs in the AA are designated distressed due to a poverty rate of 20% or more in the AA. The high percentage of loans originating in the three distressed CTs (82% of the number and 71% of the dollar volume) reflects favorably on CNBB’s lending performance.

Responses to Complaints

CNBB has not received any complaints related to its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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