



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

February 9, 2012

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

The State National Bank in West  
Charter Number 13022

100 North Main Street  
West, TX 76691

Comptroller of the Currency  
Dallas Field Office  
225 E John Carpenter Freeway, Suite 500  
Los Colinas, TX 75062

**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.**

State National Bank's lending performance reflects a satisfactory response to credit needs in its community. Factors that support the overall rating include:

- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of loans are in the bank's AA.
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among businesses and farms of different sizes.
- There have been no complaints with respect to SNB's CRA performance.

**SCOPE OF EXAMINATION**

SNB was evaluated under the Small Bank examination procedures which include a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

The scope of the CRA examination covered the time period from September 18, 2007, the date of the prior Performance Evaluation (PE), to February 9, 2012, the date of the current evaluation. We identified commercial and agriculture loans as SNB's primary loan products. To evaluate the bank's commercial and agriculture lending performance, we selected a sample of 20 commercial and 20 agriculture loans made in the bank's AA from September 18, 2007 through February 9, 2012. Our sample to test lending in the AA included those loans plus 7 commercial and 7 agriculture loans made outside the AA.

In evaluating the bank's loan-to-deposit ratio, we used a comparison of four similarly situated banks over the prior 17 quarters. These banks were selected for analysis based on their proximity and similar size to SNB.

**DESCRIPTION OF INSTITUTION**

State National Bank (SNB) is headquartered in West, Texas. As of December 31, 2011, SNB had total assets of \$59 million. SNB is wholly owned by its shareholders, the largest three being Jerome Lednicky, David Kultgen, and Pat Beard. The bank's only location is the main office in West. The bank owns no automated teller machines and has one drive in at the main office in West. The bank neither opened nor closed any branches during the evaluation period. SNB offers a full range of deposit and loan products and services with a focus on commercial, agriculture, and consumer lending.

As of December 31, 2011, net loans represent 25 percent of the bank's total assets. A summary of the loan portfolio is as follows:

<b>Loan Portfolio Summary by Loan Product</b>		
<b>December 31, 2011</b>		
<b>Loan Category</b>	<b>Dollar Volume \$(000)</b>	<b>% of Dollars</b>
Commercial	7,210	52.4%
Agriculture	2,678	19.5%
Consumer	2,577	18.7%
Residential	1,166	8.5%
Other	116	0.8%
<b>Total</b>	<b>13,747</b>	<b>100%</b>

*Source: December 31, 2011, Consolidated Report of Condition*

At the prior CRA examination dated September 18, 2007, a satisfactory rating was assigned. There are no legal or financial factors impeding the bank's ability to help meet the credit needs of the AA.

## **DESCRIPTION OF ASSESSMENT AREA**

SNB's AA includes a mix of census tracts on both sides of the McLennan and Hill county line. The AA includes 7 contiguous census tracts with 0 tracts designated low-income, 0 tracts designated moderate-income, 6 tracts designated middle-income, and 1 tract designated upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low or moderate income geographies.

West is located in McLennan County off of Interstate 35 approximately 20 miles south of Hillsboro, TX and 20 miles north of Waco, TX. According to the U.S. Census Bureau, the McLennan-Hill AA has a population of 24,762. Economic conditions are characterized as relatively stable. The weighted average of HUD updated MSA Median Family Income for the AA is \$50,914. There are limited employment opportunities in West, with much of the population commuting to nearby Waco. The largest employers in West are the West Independent School District, West Rest Haven Nursing Home, and the Jupe feed mill. West benefits somewhat from being directly adjacent to a major highway. Competition from other financial institutions primarily includes Pointwest Bank in West and other institutions in Waco and spread throughout the AA.

The following table contains a summary of economic and demographic data for the AA.

<b>Demographic Information for McLennan-Hill County AA</b>					
	<b>#</b>	<b>% Low</b>	<b>% Moderate</b>	<b>% Middle</b>	<b>% Upper</b>
Geographies (Census Tracts)	7	0%	0%	86%	14%
Population by Geography	24,726	0%	0%	87%	13%
Owner Occupied Housing Units by Geography	9,269	0%	0%	88%	12%
Businesses by Geography	2,553	0%	0%	82%	18%
Farms by Geography	303	0%	0%	83%	17%
Family Distribution by Income Level	7,043	16%	16%	24%	44%

Household Distribution by Income Level	9,269	20%	15%	18%	47%
Census Median Family Income (MFI)	\$38,555	Median Housing Value	\$64,771		
HUD – Adjusted MFI: 2011	\$50,914	Households Below the Poverty Level	11%		
HUD – Adjusted MFI: 2010	\$48,814	Unemployment Rate	2%		
HUD – Adjusted MFI: 2009	\$48,214				

Source: 2011 Business Geodemographic Data; 2000 U.S. Census Data

We held discussion with a community contact, a prominent business administrator in West. She indicated that credit needs in the area were limited, with small business, agriculture and small consumer loans being the primary needs. While she stated that there was a need for residential loans, she assumed that most people were getting long term mortgages with larger institutions. She said that as far as she understood SNB and other area banks had done a good job meeting the credit needs of the area.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SNB has demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products originated since the previous CRA examination: commercial and agriculture loans. The sample of commercial and agriculture loans was used to determine the extent of lending within the AA, the distribution of loans by borrower income level, and the geographic distribution of loans in the AA.

### Loan-to-Deposit Ratio

SNB’s loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and AA credit needs. The bank had a quarterly average LTD ratio of 24 percent over the 17 quarters since the last CRA examination. This ratio reasonably compares with other financial institutions of similar size, location and product offerings. A summary of similarly situated institutions is detailed below:

Institution	Assets as of 9/30/11 (000s)	Average Quarterly LTD Ratio as of 9/30/11
Pointwest Bank	80,499	35.58%
The Citizens National Bank of Hillsboro	\$188,720	26.17%
The State National Bank in West	\$62,316	24.10%
First National Bank in Whitney	\$57,432	19.03%

Source: Call Report data.

SNB ranks third among the three similar area banks used for comparison. The average LTD ratio for the other four banks over the same period of time was 27 percent. The small size of the AA, limited loan demand, and the amount of competition in the area are primary factors for the bank’s lower LTD ratio.

**Lending in Assessment Area**

A majority of loans are in SNB’s AA. In our sample of 27 commercial loans and 27 agriculture loans, 74 percent of the number and 43 percent of the dollar volume of loans sampled were made in the AA. The dollar amount is skewed by a few large participation loans, one of which is an \$800 thousand agriculture credit. The following table reflects the distribution of loans, by number and dollar volume, which originated inside and outside the AA.

<b>Lending in McLennan-Hill AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	20	74	7	26	27	1,375,522	53	1,228,836	47	2,522,727
Agriculture	20	74	7	26	27	353,815	27	958,786	73	1,213,121
Total	40	74	14	26	54	1,729,337	43	2,187,622	57	3,979,959

Source: Loan Sample

**Lending to Businesses and Farms of Different Sizes**

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among businesses and farms of different sizes. We chose agriculture loans largely due to the growth in the product type since the prior exam.

**Commercial loans:**

Our sample of commercial loans made within the AA indicates reasonable penetration among businesses of different sizes.

Of the 20 commercial loans in our sample, 93 percent of the number and 65 percent of the dollar volume was made to businesses with revenues less than \$1 million. The following table shows the distribution of loans to businesses of different sizes.

<b>Borrower Distribution of Loans to Businesses in McLennan-Hill AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69.45%	2.27%	28.28%	100%
% of Bank Loans in AA by #	92.59%	7.41%	0.00%	100%
% of Bank Loans in AA by \$	65.44%	34.56%	0.00%	100%

Source: Loan sample; Dunn and Bradstreet data.

**Agriculture loans:**

Our sample of agriculture loans made within the AA indicates reasonable penetration among farms of different sizes.

Of the 20 agriculture loans in our sample, 90 percent of the number and 69 percent of the dollar volume was made to farms with revenues less than \$1 million. The following table shows the distribution of loans to farms of different sizes.

<b>Borrower Distribution of Loans to Farms in McLennan-Hill AA</b>				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	99.01%	0.66%	0.33%	100%
% of Bank Loans in AA by #	90.00%	10.00%	0.00%	100%
% of Bank Loans in AA by \$	69.48%	30.52%	0.00%	100%

Source: Loan sample; Dunn and Bradstreet data

### **Geographic Distribution of Loans**

SNB’s assessment area does not contain any low- or moderate-income census tracts; therefore, a geographical analysis would not be meaningful.

### **Responses to Complaints**

SNB did not receive any complaints or public comments regarding 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 needs.