



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

December 19, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**Southwest Center
Round Mountain, Texas 78663**

**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.”

The major facts supporting the institution’s rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, assessment area (AA), credit needs, and relevant competitive factors;
- A substantial majority of the bank’s loans are originated within its AA;
- The record of lending reflects satisfactory penetration to borrowers of different incomes and businesses of different sizes. Cattleman’s National Bank (CNB) has a strong record of small business lending.
- An analysis of the bank’s geographic distribution of loans would not be meaningful because of the lack of low- and moderate-income (LMI) census tracts (CTs) within the AA.

DESCRIPTION OF INSTITUTION

Founded in 1986, CNB is an independent intrastate community bank located in central Texas. The bank had total assets of about \$81 million as of September 30, 2011, and is headquartered in Round Mountain, Texas. The bank has five offices: the main office in Round Mountain, Marble Falls, Blanco, Dripping Springs, and Johnson City. The Stonewall branch was closed in June 2010. CNB is a full-service retail bank serving several counties and surrounding areas. All offices have drive-up facilities and extended hours on Friday. All branches, except the Round Mountain location, have automated teller machines (ATMs) and Saturday hours. The bank also offers 24-hour Internet banking, including bill pay.

As of September 30, 2011, net loans represent 52% of the bank’s total assets. Based on its financial condition, resources, the local economy, product offerings, and competition, CNB has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder its ability to provide credit in its AA. Having been assigned a “Satisfactory” rating at its previous CRA examination conducted in July 2007, there have been no complaints relating to CNB’s CRA performance. The table below details the bank’s loan portfolio composition as of September 30, 2011.

LOAN PORTFOLIO COMPOSITION		
Loan Category	\$(000)	%
Construction and Land Development	8,932	21
Secured by Farmland	453	1
1-4 Family Residential	5,229	12
Commercial	22,336	52
Total Real Estate Loans	36,950	86
Commercial and Industrial	3,066	7
Consumer	1,924	4
Other	1,301	3
Total	43,241	100%

Source: Institution Consolidated Reports of Condition as of September 30, 2011

DESCRIPTION OF ASSESSMENT AREA

CNB has two AAs. One is part of the Austin-Round Rock Metropolitan Statistical Area (MSA), which includes Hays County. The other AA is a non-MSA and includes four counties: Burnet, Blanco, Gillespie, and Llano. In total, the AA includes 21 contiguous CTs delineating CNB's primary trade area and encompasses all five offices. There are 8 middle- and 13 upper-income CTs. None of the CTs are designated as low- or moderate-income geographies. This AA meets the regulatory requirements and does not arbitrarily exclude LMI geographies.

Description of Non-MSA AA

The bank's main office and three branches are located in the non-MSA portion of the AA; its headquarters is in Round Mountain, which is in Blanco County. The Blanco and Johnson City branches are also located in Blanco County, while the Marble Falls location is in Burnet County. These counties are not included in an MSA as defined by the U.S. Census Bureau. For the purpose of this evaluation, these counties are evaluated collectively and referred to as the non-MSA portion of the AA. Round Mountain has a population of approximately 111 and is located approximately 60 miles north of San Antonio along U.S. Highway 281 North. Round Mountain is a small rural community with no major employer or industry.

Demographics of the combined counties show that of the total families, 13% are low-income, 15% are moderate-, 21% are middle-, and 51% are upper-income. A little over 10% of households are below the poverty level. The following table provides more information on the non-MSA portion of the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF NON-MSA ASSESSMENT AREA	
Population	
Number of Persons	69,408
Number of Families	20,090
Number of Households	27,960
Geographies	
Number of Census Tracts	17
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	35.29%
% Upper-Income Census Tracts	64.71%
Median Family Income (MFI)	
2000 MFI for AA	\$45,379
2011 HUD-Adjusted MFI	\$46,500
Economic Indicators	
Unemployment Rate	1.79%
2011 Median Housing Value	\$99,723
% of Owner-occupied Properties	62.60%
% of Households Below Poverty Level	10.15%

Source: US Census Data

We recently conducted a community contact with an economic development entity. The entity in the area works to ensure a favorable business climate for all types of businesses. Our contact stated that there are plenty of opportunities for housing, small business, and consumer lending. Overall, the contact stated that banks are fulfilling the credit needs of the community and does not have any negative perceptions.

Description of Austin-Round Rock MSA

CNB has one branch located in the Austin-Round Rock MSA. The bank has designated four CTs in the western part of Hays County as part of its AA. For the purpose of this evaluation, these CTs are referred to as the MSA portion of the AA. Dripping Springs is located in Hays County and is a bedroom community to Austin. The town is located approximately 15 miles west of Austin. The local school district is the area’s largest employer.

Demographics of the MSA portion of the AA show that of the total families 10% are low-income, 16% are moderate-, 24% are middle-, and 50% are upper-income. Less than 4% of households are below the poverty level. The following table provides more information on the MSA portion of the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF MSA ASSESSMENT AREA	
Population	
Number of Persons	35,182
Number of Families	10,206
Number of Households	12,660
Geographies	
Number of Census Tracts	4
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	50.00%
% Upper-Income Census Tracts	50.00%
Median Family Income (MFI)	
2000 MFI for AA	\$64,535
2011 HUD-Adjusted MFI	\$73,800
Economic Indicators	
Unemployment Rate	1.14%
2011 Median Housing Value	\$158,063
% of Owner-occupied Properties	80.84%
% of Households Below Poverty Level	3.69%

Source: US Census Data

SAMPLE

Our review focused on the primary business lines. For the purpose of evaluating CNB’s CRA performance, we consolidated commercial and commercial real estate loans into one category. We also reviewed residential real estate loans. For the purpose of evaluating the bank’s record of lending to borrowers of different income levels, all loans made outside of the AA were eliminated.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's CRA performance is "Satisfactory." The evaluation period covered lending activity for small business, residential, and consumer loans reported from June 30, 2007 to November 30, 2011.

Loan-to-Deposit Ratio

Its LTD ratio is reasonable given CNB's asset size, financial condition, and credit needs in the AA. We reviewed the quarterly average LTD ratios for the 18 quarters beginning June 30, 2007, through September 30, 2011, inclusive. Our sample includes banks that were similarly situated in comparison to CNB, whose average LTD ratio during this period was 63.82%. The LTD ratio for CNB ranks sixth among the seven peer banks; however, it is not out of line with some of the other institutions. During this 18 quarter period, CNB's LTD ratio ranged from a low of 39% to a high of 53%. The custom peer average was 73%, with average peer bank ratios ranging from a low of 53% to a high of 97%.

INSTITUTION	ASSETS AS OF 9/30/11 (\$000's)	AVERAGE LTD RATIO %
Cattleman's National Bank	80,926	63.82
First State Bank of Burnet	199,074	53.23
Arrowhead Bank	125,798	66.88
Blanco National Bank	149,394	67.61
Llano National Bank	128,617	68.52
Johnson City Bank	95,372	85.60
Pioneer Bank, SSB	123,996	97.16

Lending in Assessment Area

A substantial majority of CNB's loan products were originated within the bank's AA, meeting the standard for outstanding performance. During the evaluation period, about 74% of residential and commercial loans were originated within the bank's AA and represented about 58% of the dollar volume. Please refer to Table 1 below.

Table 1										
LENDING IN ASSESSMENT AREA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	23	46.00	27	54.00	50	3,831	38.73	6,060	61.27	9,891
Commercial	188	79.32	49	20.68	237	32,431	61.21	20,556	38.79	52,987
Totals	211	73.52	76	26.48	287	\$36,262	57.67	\$26,616	42.33	\$62,878

Source: Data reported under HMDA for residential; consumer and commercial information is based on the bank's internal list of loans.

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

The bank’s level of lending to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance. The bank’s level of lending to small businesses is outstanding and above demographics of the AA and is given more weight as commercial lending constitutes 59% of the portfolio. However, residential real estate lending is below area demographics.

Record of Lending in the Non-MSA Portion of the Assessment Area

The level of lending to small businesses in the non-MSA portion of the AA is outstanding, having made 90% of the commercial loans samples to businesses with gross annual revenues of less than \$1 million. This compares favorably to the 70.21% of all businesses in this part of the AA that have revenues less than \$1 million.

Table 2				
BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN NON-MSA ASSESSMENT AREA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.21	1.75	28.04	100.00
% of Bank Loans in AA by #	90.00	10.00	0.00	100.00
% of Bank Loans in AA by \$	98.49	1.51	0.00	100.00

Source: Loan sample; Dunn and Bradstreet data

CNB record of residential lending to LMI families is average for home purchase loans; but below average for home improvement and refinance loans. Of the home purchase loans, the bank made 14% to both LMI families. There were no home improvement or refinance loans made to LMI families. Interim construction loans are primarily conducted without permanent financing. No alternative financing programs are made available to LMI applicants.

Table 3								
BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN NON-MSA ASSESSMENT AREA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	12.89	14.29	14.63	14.29	21.41	14.29	51.07	57.14
Home Improvement	12.89	0.00	14.63	0.00	21.41	0.00	51.07	0.00
Refinance	12.89	0.00	14.63	0.00	21.41	16.67	51.07	66.67

Source: Data reported under HMDA; U.S. Census data.

Record of Lending in the MSA Portion of the Assessment Area

CNB’s level of lending to small businesses in the MSA portion of the AA is outstanding, having made 80% of the commercial loans to businesses with gross annual revenues of less than \$1 million. This compares favorably to the 72.39% of all businesses in this part of the AA that have revenues less than \$1 million.

Table 4				
BORROWER DISTRIBUTION OF LOANS TO BUSINESSES IN MSA ASSESSMENT AREA				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unavailable/ Unknown</i>	<i>Total</i>
% of AA Businesses	72.39	1.60	26.02	100.00
% of Bank Loans in AA by #	80.00	20.00	0.00	100.00
% of Bank Loans in AA by \$	70.26	29.74	0.00	100.00

Source: Loan sample; Dunn and Bradstreet data.

CNB is below the demographic information for residential lending to LMI families. Of home purchase loans, 20% were made to moderate-income families; however, no home purchase loans were made to low-income families. The bank does not offer 30 year fixed-rate mortgages to borrowers. There were no home improvement or refinance loans made to LMI families.

Table 5								
BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN MSA ASSESSMENT AREA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Loan Type								
Home Purchase	10.32	0.00	15.56	20.00	23.88	0.00	50.24	80.00
Home Improvement	10.32	0.00	15.56	0.00	23.88	0.00	50.24	100.00
Refinance	10.32	0.00	15.56	0.00	23.88	33.33	50.24	66.67

Source: Data reported under HMDA; U.S. Census data.

Geographic Distribution of Loans

An analysis of the bank’s geographic distribution of loans would not be meaningful. There are no low- or moderate-income CTs in the AA.

Responses to Complaints

Cattleman’s National Bank 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.