



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 2, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**Southwest Center - Highway 281
Post Office Box 70
Round Mountain, Texas 78663**

**Office of the Comptroller of the Currency
Southwestern District
500 North Akard, 1600 Lincoln Plaza
Dallas, Texas 75201-3394**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **Cattleman's National Bank (CNB), Round Mountain, Texas** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of March 2, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

- CNB's lending performance has been satisfactory in relationship to its size, other banks in the county, nature of the community, financial resources, and known credit needs. Since the last CRA examination in March 1995, CNB's loan-to-deposit (LTD) ratio has averaged 52%. The average ratio of CNB's competitors in the same assessment areas was 49% during this same time period. Loan growth has been strong in 1997. On September 30, 1997, CNB reported loan growth of 20% as compared to other area banks which reported growth of only 5%.
- A substantial majority, over 80%, of the bank's loans have been made within the bank's assessment areas.
- The bank has a good distribution of loans to borrowers and businesses of all income levels, including low- and moderate-income individuals and small businesses.

The following pages further describe the CNB's CRA performance.

The following table indicates the performance level of *Cattleman's National Bank* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	Cattleman's National Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans	Geographic analysis was not meaningful.		
Response to Complaints	Not Applicable, no complaints relating to the bank's CRA performance have been received.		

DESCRIPTION OF INSTITUTION

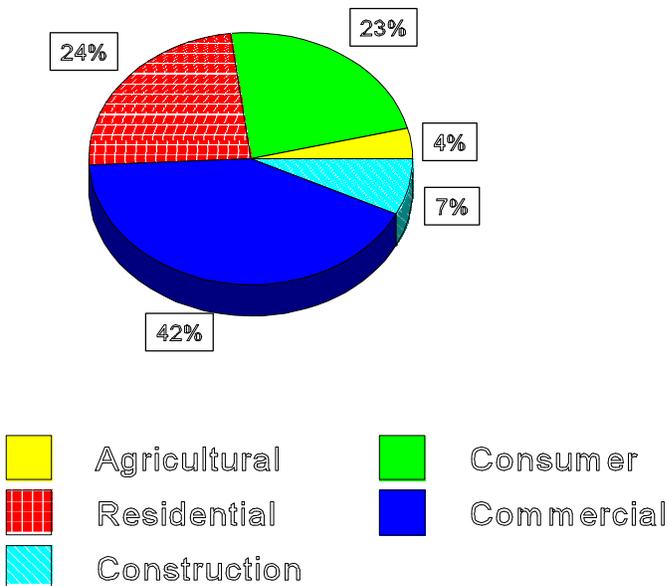
CNB is a \$50 million rural bank, with six offices in small neighboring communities. All CNB locations are within 40 miles of the main office, which is located in Round Mountain, Texas. Round Mountain is an isolated area, approximately 60 miles west of Austin and between the communities of Marble Falls and Johnson City. Branch offices are located in Blanco, Dripping Springs, Marble Falls, Johnson City, and Stonewall. The Dripping Springs office opened in November 1996 and Stonewall opened in November 1997. CNB also has a new automated teller machine (ATM) in the Dripping Springs office and another ATM is in the process of being installed in the Stonewall office. All offices provide full banking services. The Dripping Springs office also offers mortgage banking services.

The majority of CNB is controlled by one local family. CNB is affiliated with Arrowhead State Bank, in Llano, Texas, through common ownership.

Approximately 49% of the bank's average assets are in loans and 37% are in investment securities. CNB offers traditional loan and deposit products. The majority of its loan portfolio is centered in commercial loans. The bank's loan distribution on December 31, 1997, is provided below.

Loan Distribution

As of 12/31/97



The local economies in the areas where branch offices are located are all relatively stable. The economies in Marble Falls, Dripping Springs, and Fredricksburg have been growing steadily the past few years. Economic support for the area is provided by the agricultural industry, primarily cattle ranching, tourism, recreation, and granite mining. Dripping Springs is more of a bedroom community for Austin and is more heavily influenced by the economy of the Austin metropolitan area, which has been very strong for the past few years. CNB faces competition from numerous other financial institutions in the same communities. There are at least 6 other community banks operating in the same cities, as well as branches of larger savings institutions and larger regional banks. There are no other banks in the communities of Round Mountain and Stonewall.

No legal impediments or other factors hinder the bank's ability to provide credit. At the last CRA examination in March 1995, CNB's CRA rating was "Satisfactory." CNB has the ability to meet the various needs of its community, based on its size, financial condition, stable local economy, product offerings, and prior performance.

DESCRIPTION OF ASSESSMENT AREA

CNB has designated its assessment area as the "Highland Lakes" area of the central Texas "Hill Country." This area includes all of Blanco County, the southern half of Burnet County, and the Southeastern corner of Llano County. The assessment area has been expanded since the previous examination to also include the portions of northern Hays County which are located in the Austin Metropolitan Statistical Area (MSA), and portions of eastern Gillespie County, near Fredricksburg, Texas. The entire population of the bank's assessment area is approximately 69,000. For the purposes of this examination, the bank's assessment area was expanded to include adjacent whole block numbering areas (BNA's)¹ and census tracts, and it was divided into MSAs and Non-MSAs.

Description of Non-MSAs

The population of Non-MSAs, which includes Blanco County and portions of Burnet, Llano, and Gillespie counties, is approximately 47,000. Many of the communities in these counties are growing retirement areas. Income information from the United States Department of Housing and Urban Development (HUD) reveals that the median family income (MFI) level for non-metropolitan areas in Texas was \$31,500 in 1997.

¹ **Block numbering areas (BNAs) are small statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county boundaries.**

Blanco County includes the cities of Blanco, Johnson City, and Round Mountain. The 1990 census designated only two BNAs in this area. Both of these BNAs were considered middle-income areas.² The population for the entire county was approximately 6,000 in the 1990 census. The population of Blanco was 3,200, Johnson City was 2,800, and Round Mountain was approximately 200.

The portions of Burnet county in CNB’s assessment area include the communities of Marble Falls, Granite Shoals, Meadowlakes, and portions of Horseshoe Bay, Bertram and Burnet. There are seven BNAs in this area; all but one of these BNAs are considered middle-income areas. The exception is an upper-income area. The population of this area was approximately 21,000 in the 1990 census.

CNB’s assessment area in Llano County includes the communities of Sunrise Beach, Kingsland, and Horseshoe Bay. This area is comprised of three BNAs, two are upper-income areas and one is a middle-income area. The 1990 Census data estimated population for this area at 5,000.

CNB’s assessment area in Gillespie County includes the community of Stonewall and the city of Fredricksburg and is comprised of four BNAs. Three of the BNAs are middle-income areas and one is an upper-income area. Estimated population for this area was approximately 15,000 in the 1990 census. Population statistics for Stonewall were not readily available; it is not an incorporated city. Stonewall is approximately 15 miles from Fredricksburg.

Additional information on the Non-MSAs as provided in the 1990 census is provided below.

Assessment Area Demographics, Non-MSA Areas	
Number of Families	14,094
Number of Housing Units	27,233
% Owner Occupied Units	53%
% Mobile Homes or Trailers	15%
Median Housing Value	69,942

²BNAs and census tracts are classified by the following income-level designations:

A low-income BNA has an average MFI less than 50% of the 1990 state average non-metropolitan MFI and a low-income census tract has an MFI that is less than 50% of the 1990 MSA MFI.

A moderate-income BNA or census tract has an average MFI between 50% and 80% of the state average non-metropolitan MFI or MSA MFI.

A middle-income BNA or census tract has an average MFI between 80% and 120% of the state average non-metropolitan MFI or MSA MFI.

An upper-income BNA or census tract has an average MFI greater than 120% of the state average non-metropolitan MFI or MSA MFI.

The 1990 Texas average Non-Metropolitan MFI was \$24,585. The 1990 average MFI for the Austin MSA was \$35,481.

Non-MSA Assessment Area Demographics (Continued)	
Population Age 65+ Years	24%
Households Receiving Social Security Income	43%
% Low-Income Families	18%
% Moderate-Income Families	16%
% Middle-Income Families	23%
% Upper-Income Families	43%

Description of MSA Assessment Area

As previously stated, CNB’s assessment area includes portions of Hays county which are located in the Austin MSA, and includes the cities of Dripping Springs, Wimberley, and Mountain City. There are four census tracts in this area, two are upper- and two are middle-income areas. The 1990 census population estimate was 21,000. Population for the entire Austin MSA was 846,000. HUD estimated that the MFI for the Austin MSA in 1997 was \$48,600. Additional demographic information on the bank’s assessment area in Hays County is presented in the chart below. The information was obtained from the 1990 census.

MSA Assessment Area Demographics	
Number of Families	6,178
Number of Housing Units	9,088
% Owner Occupied Units	68%
% Mobile Homes or Trailers	13%
Median Housing Value	95,980
Population Age 65+ Years	10%
Households Receiving Social Security Income	21%
% Low-Income Families	12%
% Moderate-Income Families	15%
% Middle-Income Families	23%
% Upper-Income Families	50%

In order to gather more information on the nature of the community and potential lending opportunities in CNB's assessment area, we reviewed information gathered from other regulatory agencies in their meetings with city officials and the local housing authority in Marble Falls. We also reviewed information from contacts with local government officials in Blanco and Fredricksburg. In addition, we met with a city official in Dripping Springs. Contacts in Marble Falls, Dripping Springs, and Fredricksburg all revealed significant growth in their areas. Marble Falls and Dripping Springs contacts both mentioned the need for more involvement by all local banks in city expansion plans and in providing financial advise and/or expertise. Officials in Marble Falls and Fredricksburg mentioned the need for more affordable housing. Specific credit needs mentioned in Blanco were primarily consumer-oriented. None of the contacts had any negative comments about the lending performance of CNB. Marble Falls officials did recognize CNB for its efforts in holding public funds for the city. Through its recently established mortgage loan brokerage activities, CNB can provide more products that would be suitable for affordable housing. CNB's lending activities in Blanco have been primarily consumer-oriented. For further discussion on CNB's lending performance, please refer to the following paragraphs which summarize performance in each criteria specified in the CRA regulation. Conclusions for the MSA are discussed separately. CNB's performance level in the MSAs and Non-MSAs mirrors the overall performance level for the entire bank which is summarized in the chart on page 2.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio

CNB's LTD ratio is reasonable, given its asset size, financial condition, competition, and the known credit needs of the assessment area. Since the last CRA examination, the LTD ratio has averaged 52%. The average ratio of CNB's primary competitors in its assessment area was 49% during this same time period.

The bank's new mortgage brokerage service in the Drippings Springs office, has helped to generate a few additional loans which are not reflected in the LTD. In the past year, CNB has become more active in providing interim construction financing for new homes. CNB has provided interim financing for at least 25 homes and/or home improvement loans which have been permanently financed by other lenders.

CNB has a significant amount of public funds which must be secured by marketable securities and cannot used for loans. These deposits totaled \$9 million on December 31, 1997. The LTD ratio without these deposits on December 31, 1997, would have approximated 64%.

Loan growth has been strong in 1997. On September 30, 1997, CNB reported loan growth of 20% as compared to peer growth of only 5%. The majority of CNB's growth has been in the Marble Falls, Dripping Springs, and Stonewall offices. Estimates of LTD ratios by office is provided in the following table.

Office	Loans	Deposits	LTD Ratio	LTD Ratio Less Public Funds
Blanco	2,381	5,151	46%	53%
Dripping Springs	3,008	4,106	73%	N/A
Johnson City	3,253	8,462	38%	57%
Marble Falls	9,247	17,360	53%	73%
Round Mountain	6,741	14,023	48%	49%
Stonewall	517	596	87%	N/A

LTD ratios of other banks in Blanco and Johnson City were slightly higher on September 30, 1997 than CNB's ratios; however, these banks had a larger share of the deposits and they have only one office in each community. CNB's LTD ratio in Marble Falls was very similar to peer on September 30, 1997 and even higher when public funds are excluded. Given the size, staffing levels, and financial resources of CNB, its LTD ratios appear reasonable. For further discussion on the Dripping Springs office, please refer to conclusions in the MSA comment.

Lending in the Assessment Area

A substantial majority of CNB's loans are within its assessment area, both MSAs and Non-MSAs. Bank officers prepared reports during the examination which revealed that approximately 84% of all new loans in 1997 were in CNB's assessment areas. The bank's 1997 report prepared for the Home Mortgage Disclosure Act (HMDA) revealed that 58% of residential mortgage loans were in the assessment area. This HMDA report was in-process of being finalized and that percentage could change slightly. This was the first year CNB was subject to reporting under the HMDA.

We also selected a sample of 57 loans originated in 1997 for various consumer purposes, residential real estate, and commercial businesses. We found that approximately 87% of these loans were in the bank's assessment area. This distribution of loans is similar to the bank's findings and indicates that CNB is lending in its assessment areas.

Geographic Distribution of Loans

As previously mentioned when describing the assessment area, all the BNAs and census tracts in CNB's assessment areas are either middle- or upper-income areas. Consequently, analysis of loan distribution by BNA or census tract would not provide a meaningful analysis.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's loan portfolio reflects a good distribution among individuals of various income levels³ and to businesses of different sizes. From our sample of consumer and residential real estate loans in CNB's assessment area, we identified the income level of borrowers and compared the loan distribution by income level to the demographic characteristics of the metropolitan areas and non-metropolitan areas. The table below reflects the bank's performance in non-metropolitan areas. CNB's performance in the Dripping Springs metropolitan area (Austin MSA) is detailed separately in this public evaluation. Both tables demonstrate CNB's willingness to lend to all applicants, regardless of their income category. The bank's performance is considered good in relationship to the nature of its community, competition, and available lending opportunities.

Lending to Borrowers of Different Income Levels, Non-MSA Areas										
	Low-Income Families		Moderate-Income Families		Middle-Income Families		Upper-Income Families		Total	
Area Demographic Characteristics	18%		16%		23%		43%		100%	
	#	%	#	%	#	%	#	%	#	%
Consumer, RE Loan Distribution by Borrower Income	3	23%	4	31%	3	23%	3	23%	13	100%

We reviewed gross revenues in our sample of commercial loans to determine if CNB was lending to businesses of different sizes. This sample only included loans in the assessment area (19 loans). Agricultural loans were not included in the sample because they do not represent a significant portion

³ Income level designations are as follows:

A low-income borrower earns less than 50% of the updated 1997 MFI for non-metropolitan areas in Texas.

A moderate-income borrower earns between 50% and 80% of the updated 1997 MFI.

A middle-income borrower earns between 80% and 120% of the updated 1997 MFI.

An upper-income borrower earns more than 120% of the updated 1997 MFI.

of the bank's portfolio.

The bank's loan distribution by revenue size is illustrated in the following table. It indicates that the bank is lending to businesses of all sizes in its assessment area .

Loans to Small Businesses								
Revenue Ranges	< \$200M		\$200M -- \$500M		\$500M -- \$900M		> \$1 MM	
	#	%	#	%	#	%	#	%
Commercial/AG	4	21%	5	26%	2	11%	8	42%

Response to Complaints

No complaints relating to CRA performance have been received by CNB or the OCC.

Compliance with Fair Lending Laws and Regulations

A fair lending examination was conducted as part of the compliance and CRA examination of CNB. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No fair lending violations were identified.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA IN MSA AREA :

Loan-to-Deposit Ratio

The LTD ratio in the Dripping Springs branch is approximately 73%. There are no other independent banks in this community to use in comparing the bank's lending performance; however, the bank's performance is considered very good in relationship to the length of time the office has been open, the staffing levels, and CNB's overall financial resources. CNB does face competition in this area from a larger regional bank branch office, which also has an affiliated mortgage company.

As previously indicated, the office in Dripping Springs has also helped facilitate the origination of long-term mortgage loans through other lenders. These loans are not reflected in the bank's LTD.

Lending in the Assessment Area

Please refer to prior comments regarding CNB's lending activities in all assessment areas. The 1997 HMDA report did reflect that CNB had made seven real estate loans in the Austin MSA, six of which were in CNB's Dripping Springs assessment area.

Geographic Distribution of Loans

All the census tracts surrounding the Dripping Springs office are either upper- or middle-income areas; consequently, a geographical analysis by census tract would not provide meaningful information.

Loans to Borrowers of Different Income Levels and to Businesses of Different Sizes:

From our sample of consumer and real estate loans, we analyzed the distribution of loans to borrowers of different income levels in the Dripping Springs area. The table below reflects the distribution of thirteen loans from our sample and four loans reported on CNB's HMDA statement. Income information was not available on two of the HMDA loans in the assessment area. The distribution indicates that the bank has made loans to borrowers of all income levels from this office.⁴ Performance is considered good, especially considering the significant number of upper- income individuals in the area.

⁴The income levels were established using the MFI for the Austin MSA which was estimated to be \$48,600 by HUD in 1997.

Lending to Borrowers of Different Income Levels, MSA Areas										
	Low- Income Families		Moderate- Income Families		Middle- Income Families		Upper- Income Families		Total	
Area Demographic Characteristics	12%		15%		23%		50%		100%	
	#	%	#	%	#	%	#	%	#	%
Consumer Loan Distribution by Borrower Income	6	46%	1	8%	2	15%	4	31%	13	100%
HMDA Loans	1	25%	1	25%	0	N/A	2	50%	4	100%
Total Loans	7	41%	2	12%	2	12%	6	35%	17	100%

We also reviewed revenue sizes of commercial business loans generated from the Dripping Springs office. Our total sample consisted of six new loans. As indicated in the table below, the CNB office in Dripping Springs is also lending to businesses of different sizes.

Loans to Small Businesses						
Revenue Ranges	< \$100M		\$300M -- \$500M		> \$1 MM	
	#	%	#	%	#	%
Commercial	2	33%	2	33%	2	33%

Response to Complaints

No complaints have been received for the Dripping Springs office.