



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 11, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Junction National Bank
Charter Number 14330**

**701 Main Street
Junction, Texas 76849**

**Office of the Comptroller of the Currency
San Antonio North Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, Texas 78216-4605**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

Junction National Bank's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition and assessment area credit needs.
- A majority of loans are in the bank's assessment area.
- The distribution of loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels and businesses of different sizes.

DESCRIPTION OF INSTITUTION

Junction National Bank (JNB) is a locally owned community bank with total assets of \$38 million. The bank is located in Junction, Texas, and has no branches. JNB is not part of a holding company. The bank has two automatic teller machines with one on bank premises and one offsite at a local food mart. JNB is a full service bank that offers traditional loan products with an emphasis on real estate and consumer lending. As of March 31, 2003, net loans of \$17 million represented 45% of total assets. A summary of the loan portfolio is as follows:

Loan Category	\$ (000)	%
Commercial Real Estate Loans	3,624	21%
Commercial Loans	3,139	18%
Residential Real Estate Loans	3,562	21%
Consumer Loans	3,582	21%
Agricultural Loans	3,312	19%
Total	17,219	100%

There are no legal or financial circumstances that impede the bank's ability to help meet the credit needs in its assessment area (AA). JNB's previous CRA rating, dated January 11, 1999, was "satisfactory." No branches have been opened since the last examination. JNB converted to a Subchapter S corporation in year 2000.

DESCRIPTION OF ASSESSMENT AREA

JNB designated Kimble County, Texas, as its AA. Kimble County consists of two block-numbering areas (BNAs) with a 1990 Census total population of 4,122. Both BNAs are designated middle-income. There are no low- or moderate-income BNAs in the bank's AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Junction is a small, rural community in Kimble County with a population of about 2,500. Junction is located approximately 105 miles southeast of San Angelo and 120 miles northwest of San Antonio. Economic conditions are stable. Unemployment is low with an unemployment rate of 2%. Ranching, deer hunting and tourism dominate the economy. Junction continues to be the shipping and marketing center for Kimble County's livestock, wool, mohair and pecan processing. Texas Tech University Center, a branch of Texas Tech University, is also located in Junction.

Competition is from First State Bank and Kerr County Federal Credit Union, the two other financial institutions located in the AA.

Of all the families living in the AA, 21% are low-income, 26% are moderate-income, 19% are middle income and 34% are upper-income. The following table provides more information on the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	1,214
Number of Households	1,635
<i>Geographies</i>	
Number of Census Tracts/BNA	2
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 Census MFI for AA	20,623
1999 HUD-Adjusted MFI	33,900
2000 HUD-Adjusted MFI	34,700
2001 HUD-Adjusted MFI	35,800
2002 HUD-Adjusted MFI	36,100
<i>Economic Indicators</i>	
Unemployment Rate	2%
2002 Median Housing Value	39,422
% of Households Below Poverty Level	18.3%

We conducted a joint community contact with the Kimble County Chamber of Commerce, the Economic Development Corporation and a representative of the city council during this review. The contacts were positive of the community support provided by the financial institutions in the AA. They stated a loan to the only hospital in the AA was made by JNB that allowed it to keep its doors open. The hospital is now recovering financially.

SAMPLING/COMPARISON INFORMATION

Our review focused on the bank's primary product lines: residential real estate, consumer, and commercial/agricultural loans. We sampled 20 residential real estate loans, 26 consumer loans and 26 commercial/agricultural loans. All loans sampled were originated since the previous CRA examination.

In evaluating the bank's loan-to-deposit ratio, we compared JNB to one state bank located in the AA and seven other banks in the surrounding counties. We used banks in surrounding counties because there is only one other bank in the AA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management demonstrated satisfactory performance in meeting the credit needs of the AA.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition and AA credit needs. The table below shows how JNB's quarterly average loan-to-deposit ratio compares to the ratios of the other eight banks in the AA. The average loan-to-deposit ratio for all eight banks was 50.12%.

Institution	Assets as of 03/31/03 (000s)	Average LTD Ratio
Junction National Bank	37,891	45%
Mason National Bank	56,990	82
Bevans State Bank	16,447	56
The Commercial Bank of Mason	17,217	56
First National Bank of Eldorado	40,504	54
First State Bank	37,260	50
Menard National Bank	27,311	47
Pioneer National Bank	73,391	32
Peoples State Bank	40,034	23

Lending in Assessment Area

A majority of loans are in the bank's AA. JNB made 83% of all 72 loans sampled in the AA. The bank made 84% of the dollar volume of all loans sampled to borrowers located in the AA. The following table shows JNB's record of lending in the AA.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
1-4 Family Residential	20	100%	686,903	100%	0	0	0	0
Consumer	20	77%	195,719	79%	6	23%	51,176	21%
Commercial/ Agriculture	20	77%	495,810	70%	6	23%	212,231	30%
Total Reviewed	60	83%	1,378,432	84%	12	17%	263,407	16%

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

The distribution of loans reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels and businesses of different sizes.

Of the 20 consumer loans sampled, the bank originated 25% to borrowers with low-incomes and 25% to borrowers with moderate-incomes. JNB also made 16% of the dollar volume of these loans to low-income families and 28% to moderate-income families. These numbers compare favorably to 23% of all families in the assessment area having low-incomes and 22% having moderate-incomes. The following table shows JNB's record of consumer lending to all income groups.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	23		22		19		36	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1999	5%	6%	5%	4%	15%	19%	0%	0%
2000	5%	2%	5%	9%	5%	3%	10%	15%
2001	15%	8%	0%	0%	10%	8%	0%	0%
2002	0%	0%	15%	15%	5%	3%	5%	8%
Total	25%	16%	25%	28%	35%	33%	15%	23%

The bank's level of residential real estate lending to moderate-income borrowers is very good. JNB made 35% of the number of real estate loans to borrowers with moderate-incomes. Twenty-six percent of all families in the AA are moderate-income. None of the residential real estate loans sampled were made to low-income families. A review of all residential real estate loans made in the previous 4-year period found JNB made 4 loans to low-income families. The bank's low level of residential real estate lending to low-income families can be attributed to a low demand for housing as owner-occupied housing in the AA is only 46%, and 18% of the families in the AA are below poverty level. In addition, the median housing value is \$39,422 based on 1990 census data, and that has increased to \$50,700 based on 2000 census data. The following table is a breakdown of the bank's residential real estate loans by borrower income levels, compared to the percentage of families in the AA with those incomes.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21		26		20		33	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1999	0	0	10%	8%	10%	10%	5%	4%
2000	0	0	10%	9%	5%	7%	15%	14%
2001	0	0	10%	6%	0%	0%	10%	6%
2002	0	0	5%	5%	10%	7%	10%	24%
Total	0	0	35%	28%	25%	24%	40%	48%

The bank's record of lending to small businesses is strong. JNB made all 20 of the commercial/agricultural loans sampled to businesses with gross annual revenues less than \$1 million. Of the loans sampled, 16 or 80% were to businesses with revenues less than \$100 thousand. A breakdown of the commercial/agricultural loans sampled by gross annual revenues follows.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94%	6%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

Geographic Distribution of Loans

An analysis of the bank's geographic distribution of loans was not performed. This analysis would not be meaningful because there are no low- or moderate-income geographies in the AA.

Responses to Complaints

JNB did not receive any complaints or public comments regarding its CRA performance during this evaluation period.

Fair Lending Review

An analysis of 1999 through 2003 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1999.