



## **PUBLIC DISCLOSURE**

July 2, 2018

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

Junction National Bank  
Charter Number 14330

701 Main Street  
Junction, TX 76849

Office of the Comptroller of the Currency  
10001 Reunion Place, Suite 250  
San Antonio, TX 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 safe and sound operation of the institution. This evaluation is not, and should not 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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## Overall CRA Rating

**The Lending Test is rated: Satisfactory.**

Junction National Bank (JNB) has a satisfactory record of meeting community credit needs. The rating is based on the following findings:

- JNB's quarterly average loan-to-deposit (LTD) ratio needs to improve given the bank's size, financial condition, and credit needs in the assessment area (AA).
- The bank originated a substantial majority of its loans inside its AA.
- The distribution of loans reflects excellent penetration to borrowers of different income levels and to businesses of different sizes.
- JNB did not receive any complaints related to its CRA performance during the evaluation period.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing).

**Home Mortgage Loans:** Such loans include home purchase, home improvement, and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number, and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Description of Institution

JNB is a full service community bank headquartered in Junction, Texas. JNB was chartered in 1935, and has no holding company. As of March 31, 2018, the bank reported total assets of \$64 million and tier one capital of \$6 million, representing a 10 percent tier one capital ratio.

In addition to a full range of residential and commercial banking products and services, the bank offers Online Banking through [www.junctinnational.com](http://www.junctinnational.com). The website allows customers to obtain up-to-the-minute account activity, transfer funds between accounts, view cleared checks, view online statements, and offers bill pay. As of March 31, 2018, net loans totaled \$13 million, and represented 23 percent of total deposits and 22 percent of total assets. As of March 31, 2018, the loan portfolio was comprised primarily of commercial and residential real estate loans. The following table reflects the loan portfolio composition by loan type.

Loan Portfolio Composition as of March 31, 2018		
Loan Type	Volume (\$000)	% of Total Loans
Commercial Loans	\$4,630	33%
Residential Real Estate Loans	\$4,204	30%
Agricultural Loans	\$3,152	23%
Consumer Installment Loans	\$1,977	14%
Other	\$75	Less than 1%
Total Loans:	\$14,038	100%
<i>Source: March 31, 2018 Call Report</i>		

JNB has one office located in Junction, Texas. The bank has a single AA which is comprised of both CTs in Kimble County and is not part of an MSA. Both CTs are designated as middle-income distressed CTs due to their elevated poverty rate.

JNB faces competition from other local and regional financial institutions in their AA. Primary competitors include First State Bank and Kerr County Federal Credit Union. According to the FDIC's June 30, 2017, Deposit Market Share report, the bank ranks first out of two institutions in the Kimble County Non-MSA AA, with 54 percent of the total market share of deposits.

Based on its financial condition, the local economy, product offerings, and competition, JNB 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. The previous CRA examination, dated December 2, 2013, rated JNB "Satisfactory" under the small bank criteria.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

This Performance Evaluation assesses the bank's CRA performance using the lending test criteria for small bank examination procedures. The lending test evaluates the bank's record of meeting credit needs of its AA through its primary lending activities.

The OCC performed a full scope examination of the bank's AA. The OCC analyzed commercial and consumer loans originated or renewed between January 1, 2015 and December 31, 2017, as this is representative of the bank's lending strategy during the evaluation period. Examiners performed separate analyses on the 2015-2016 data and the 2017 data, due to changes in census data.

The table below shows the breakdown of all loans that JNB originated over the evaluation period. As shown below, the primary products are commercial loans, by dollar, and consumer loans by number originated. Examiners sampled 20 of each of these products were tested in the AA.

Loan Originations and Purchases By Loan Type During the Evaluation Period		
Loan Type	% by Dollar of Loans	% by Number of Loans
Residential Real Estate Loans	26%	9%
Commercial Loans	41%	23%
Consumer Installment Loans	15%	52%
Agricultural Loans	18%	16%
Total	100%	100%

Source: Internal Bank Reports

### Data Integrity

The bank is not a HMDA data reporter, therefore, full-scope data integrity procedures were not performed. Data integrity was validated through analysis of the loan files as part of the loan review. There were no data integrity issues identified during the CRA evaluation.

### Selection of Areas for Full-Scope Review

JNB has designated only one AA, which consists wholly of Kimble County, Texas. Our review of the AA determined that the AA meets regulatory requirements, as it consists of whole geographies, and does not reflect illegal discrimination or arbitrarily exclude any low- or moderate-income geographies. We conducted a full-scope review for the AA as it contributes to bank operations.

## **Ratings**

The bank's overall rating is based on the full-scope review of its only AA. Both identified primary products (commercial and consumer loans) were given equal weighting in determining the institution's lending test rating.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

# Conclusions with Respect to Performance Tests

## LENDING TEST

JNB's performance in meeting the credit needs of its community is **satisfactory**. Despite a less than reasonable LTD ratio, JNB demonstrated satisfactory performance by: (a) originating a substantial majority of loans inside its AA that is wholly comprised of distressed CTs, (b) producing excellent lending penetration to borrowers of various income levels and to businesses of different sizes.

### Loan-to-Deposit Ratio

The quarterly average LTD ratio reflects less than reasonable performance given the bank's capacity to lend, market competition, local demographic and economic factors. The bank has limited lending opportunities available in the AA due to elevated poverty and limited growth in the area. As shown in the borrower distribution, the bank is making the most of their limited lending opportunities to low- to moderate-income individuals. The bank's average quarterly LTD ratio for the 15 quarters in the evaluation period was 28 percent, and ranged from a low of 23 percent, as of March 31, 2018, to a high of 33 percent, as of March 31, 2017.

To assess JNB's performance, we compared its average quarterly LTD ratio to four similarly situated community banks with total assets ranging from \$36 million to \$61 million. JNB's average quarterly LTD ratio performed below the peer group during the evaluation period. The peer group average quarterly LTD was 49 percent, ranging from a low of 32 percent to a high of 65 percent. Banks in the following table are listed by LTD ratio, but no ranking is intended or implied. In addition, LTD ratios are calculated on a bank-wide basis.

First State Bank of Shiner is included because they are second largest market share of deposits in the market at 45 percent. First State Bank provides the strongest local competition as the bank is located one mile down the street from JNB.

Loan-to-Deposit Ratio		
Institution	Total Assets (\$000s)	Average Quarterly LTD Ratio
The Commercial Bank	49,481	58%
First State Bank	49,490	51%
Menard Bank	36,369	45%
First National Bank of Eldorado	61,042	41%
<b>Junction National Bank</b>	<b>64,312</b>	<b>28%</b>

Source: Institution Reports of Condition from December 2014 to March 2018

## Lending in Assessment Area

JNB originated a substantial majority of loans, by number and dollar volume, inside its AA, exhibiting outstanding performance. As the following table shows, 77 percent by number, and 84 percent by dollar volume, of the loans sampled originated inside the AA. The sample did not include any large loans which would skew results.

Table 1 - Lending in the Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	14	70	6	30	20	620	83	128	17	748
Consumer	17	85	3	15	20	184	89	22	11	206
Totals:	31	77	9	23	40	804	84	150	16	954

Source: Loan sample

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

The distribution of loans to borrowers of different income levels and businesses of different sizes is excellent, and meets the standards for outstanding performance for commercial and consumer loans.

### Commercial Loans

The distribution of sampled business loans reflects excellent penetration to small businesses, defined as businesses with gross annual revenues of \$1 million dollars or less. JNB's pattern of lending to small businesses is outstanding when compared to the percentage of businesses in the AA. Management indicated that loans to businesses with revenues greater than \$1 million are seldom originated in Kimble County. The following table shows the distribution of commercial loans among different sized businesses in the AA.

The following table shows the distribution of commercial loans among different sized businesses in the AA compared against 2016 census tract data. Although national census tract data changed from 2016 to 2017, it did not have a material effect on the distribution of business loans in the Kimble County Non-MSA AA. The percentage of small businesses in the AA was 83 percent in the 2017 census tract data. JNB's lending to small business exceeded aggregate data of CRA reporting institutions who on average extended 35 percent of their commercial loans in the AA to small businesses.

<b>Borrower Distribution of Loans to Businesses in Kimble County Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80	4	16	100
% of Bank Loans in AA by #	95	5	0	100
% of Bank Loans in AA by \$	85	15	0	100

Source: Loan sample; 2017 Dunn and Bradstreet data

### Consumer Loans

The distribution of consumer loans to borrowers of different income levels reflects excellent penetration to low- and moderate-income borrowers. The bank's performance exceeds comparable AA demographics for both low- and moderate-income households as reflected in the table below.

<b>Table V - Assessment Area Distribution of Consumer Loans by Income Category of the Borrower 2015-16</b>										
Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Not Available-Income Borrowers	
	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans
JNB	20	40	12	30	22	10	47	20	0	0

Source: 2010 U.S Census; 01/01/2015 - 12/31/2016 Bank Data.  
Due to rounding, totals may not equal 100.0

<b>Table V - Assessment Area Distribution of Consumer Loans by Income Category of the Borrower 2017</b>										
Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Not Available-Income Borrowers	
	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans	% of Households	% Bank Loans
JNB	28	70	16	10	15	10	41	10	0	0

Source: 2010 U.S Census; 01/01/2017 - 12/31/2017 Bank Data.  
Due to rounding, totals may not equal 100.0

### Geographic Distribution of Loans

JNB has designated Kimble County as its AA, which has no low- or moderate-income CTs. A meaningful analysis could not be performed for the geographic distribution of loans. However, both the middle income CTs in the AA are designated as distressed due to poverty levels. The high percentage of loans that originated in the two CTs (84 percent of dollar and 77 percent of number) reflects favorably on JNB's lending performance.

## **Responses to Complaints**

JNB did not receive any complaints related to its CRA performance during the evaluation period. This has a neutral impact on the bank's overall performance.

## Appendix A: Scope of Examination

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The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test: (01/01/15 to 12/31/17)	
<b>Financial Institution</b>		<b>Products Reviewed</b>
Junction National Bank (JNB) Junction, Texas		Commercial Loans Consumer Loans
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
N/A	N/A	N/A
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Kimble County Non-MSA AA	Full-Scope	The bank’s AA consists of Kimble County, Texas. The AA consists of CTs 9501 and 9502, both of which are considered middle income by the 2015 ACS Census. Both CTs are classified as distressed due to elevated poverty levels.

## Appendix B: Community Profiles for Full-Scope Areas

Table A – Demographic Information of the Assessment Area						
Kimble County Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	2	0.0	0.0	100.0	0.0	0.0
Population by Geography	4,486	0.0	0.0	100.0	0.0	0.0
Housing Units by Geography	3,351	0.0	0.0	100.0	0.0	0.0
Owner-Occupied Units by Geography	1,477	0.0	0.0	100.0	0.0	0.0
Occupied Rental Units by Geography	513	0.0	0.0	100.0	0.0	0.0
Vacant Units by Geography	1,361	0.0	0.0	100.0	0.0	0.0
Businesses by Geography	385	0.0	0.0	100.0	0.0	0.0
Farms by Geography	44	0.0	0.0	100.0	0.0	0.0
Family Distribution by Income Level	1,309	21.2	18.4	20.6	39.8	0.0
Household Distribution by Income Level	1,990	27.5	16.1	15.3	41.2	0.0
Median Family Income Non-MSAs - TX		\$52,076	Median Housing Value			\$130,997
			Median Gross Rent			\$362
			Families Below Poverty Level			15.0%
<i>Source: 2015 ACS Census and 2017 D&amp;B Data</i> <i>Due to rounding, totals may not equal 100.0</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i>						

### DESCRIPTION OF ASSESSMENT AREA

The designated AA is Kimble County, Texas, a non-metropolitan statistical area. Kimble County is made up of two census tracts, 9501, and 9502, which are classified as middle income. Junction is located 115 miles Northwest of San Antonio, and serves as the county seat and major employment center of the AA. There are no large industrial employers in the area. Based on 2016 US Census American Community Survey (ACS) estimates, the median household income was \$41,263, and the per capita income was \$26,969. Approximately 19 percent of the population lives below the poverty level. Census estimates for 2016 show the county has total population of 4,607, consisting of 2,119 households. The economy is largely agriculture based with livestock, livestock products, cedar products, and cedar by-products making up the majority. Junction serves as both shipping and processing point for these products. Other major employers in the area include PEC, municipalities, the hospital, and the school district. Tourism plays a vital role in the economy of Kimble County and Junction. The many hunting leases, access to rivers, and the state park make Kimble County a tourist destination. Texas Tech maintains a satellite campus in Junction, which can accommodate approximately 250 students per semester.

As part of this evaluation, the OCC assessed the credit needs and opportunities in the bank's AA by performing a community contact. The community organization contacted during this evaluation focuses on promoting business and tourism in Kimble County. The community contact did not identify any opportunities for improving access to credit or financial literacy in the community. The contact stated that financial institutions in the area are involved in the community, and are meeting the credit needs.