



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 30, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The City National Bank Of San Saba
Charter Number 10806**

**209 E. Brown
San Saba, TX 76877**

**Comptroller of the Currency
Austin Field Office
8310 Capital of Texas Highway North, Suite 250
Austin, TX 78731**

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.*

- The City National Bank's (CNB) lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA).
- The bank's loan-to-deposit (LTD) ratio is satisfactory and has averaged 26% for this evaluation period. Such performance is reasonable given the available loan demand in the AA.
- A substantial majority of CNB's loans are within its AA.
- CNB has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- There have been no complaints with respect to CNB's CRA performance.

The comments listed below further describe CNB's CRA performance.

DESCRIPTION OF INSTITUTION

CNB is a 42 million (MM) institution headquartered in San Saba, Texas, which is approximately 100 miles northwest of Austin, Texas. CNB operates one main office with a drive-through facility. CNB is 100% owned by CNB Financial Corporation, a one-bank holding company (HC) also located in San Saba. Total assets of the HC as of June 30, 2001, were 3,543 thousand (M).

The institution's principal focus is to promote economic development in its AA through its lending programs. CNB's primary lending products include agriculture, consumer, small business, and residential and commercial real estate. Total loans as of June 30, 2001 amounted to 9.9MM, which comprise 24% of total assets. The following reflects a detailed breakdown of CNB's loan portfolio as of June 30, 2001.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Farmland	3,944	39.80
RE Residential (1-4)	1,041	10.50
RE Nonfarm Nonresidential	939	9.48
Agricultural Production	1,070	10.80
Commercial and Industrial	1,452	14.65
Consumer	1,435	14.48
Other	29	0.29
Total	9,910	100.0

Bank lobby services are provided Monday through Friday while drive-through services are provided Monday through Saturday. CNB faces limited competition from a branch of Arrowhead Bank of Llano, Texas, and other community banks located in adjacent rural counties. CNB has a 24-hour telephone audio response system, which allows customers to obtain account balance information, transfer funds between accounts, and make loan payments. Based on its financial condition, the local economy, product offerings, competition, and prior performance, CNB has the ability to meet the various credit needs in its community. At the last CRA examination in July 1997, the bank's CRA rating was "Satisfactory." No legal impediments or other factors hinder the bank's ability to provide credit in its AA.

DESCRIPTION OF SAN SABA COUNTY

CNB has designated all of San Saba County as its AA. Principal communities located in the AA include the City of San Saba, Richland Springs, and Cherokee. Specific demographic data for this area is listed below.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	1,511
Number of Households	2,144
<i>Geographies</i>	
Number of Census Tracts/BNAs	2
% Low-Income Census Tracts/BNAs	0
% Moderate-Income Census Tracts/BNAs	100
% Middle-Income Census Tracts/BNAs	0
% Upper-Income Census Tracts/BNAs	0
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	18,758
1999 HUD-Adjusted MFI	33,900
2000 HUD-Adjusted MFI	34,700
<i>Economic Indicators</i>	
Unemployment Rate	2.7%
2000 Median Housing Value	33,755
% of Households Below Poverty Level	33.30%

BNA = block numbering area

HUD = Department of Housing and Urban Development

This area is made up of two contiguous BNAs, which surround and include the one bank office located in the City of San Saba. This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies. A further description of the AA is presented below.

Based on 1990 Census data, San Saba County has a population of 5.4M. There are 3M housing units in the AA of which 50% are owner-occupied, 19% renter-occupied, and 31% are vacant. Approximately 32% of the families in the AA are considered low-income. Moderate-income families approximate 21% of the population, while middle- and upper-income families comprise the remaining 47%. The local economy is principally agriculturally based with cattle, sheep, goats, swine, and turkey raising of major significance. In addition, pecan production is also a major

economic source. Due to recent drought conditions and fluctuating cattle prices, the strength of the local economy is considered fair. Principal non-agricultural employers in San Saba County include the Texas Youth Commission Facility, San Saba Independent School District, Morven Partners, and Mepco, Inc.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted one community leader during this examination. The contact is the Mayor of the City of San Saba. This individual mentioned that affordable housing for lower-income families is a need in the City of San Saba. The Mayor further stated that CNB is active in the community and responsive to the credit needs in San Saba County.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management is performing satisfactorily and has been successful in meeting the credit needs of its AA, including LMI individuals, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

CNB's LTD ratio is considered satisfactory, given its asset size, financial condition, and lending opportunities in the AA. Since the last CRA examination, the LTD ratio remained fairly stable and decreased slightly from 29% at June 30, 1997, to 28% at June 30, 2001. The average LTD ratio over the past 17 quarters was 26%, which is slightly below an average 27% during the previous examination. Such performance is consistent and reasonable given the available loan demand in the AA. Also, the LTD ratio is reasonable when compared with other banks headquartered in adjacent counties. During the period from July 1997 through December 2000, the adjacent banks had LTD ratios ranging from 25% to 44%. It should be noted that two of the banks with higher LTD ratios are operating out of substantially different markets than CNB.

The asset size and LTD ratio for CNB and the three competing banks during this period are listed below.

Institution	Assets as of 12/31/00 (000's)	Average LTD Ratio (**)
Llano National Bank	58,297	44.22%
Farmers State Bank	24,998	24.77%
Arrowhead Bank	84,747	31.94%
City National Bank	41,775 (*)	26.29%

* Represents total assets as of June 30, 2001.

** The average LTD ratio for the three competing banks is for the period from July 1997 through December 2000 (latest date information was available). The average LTD ratio for CNB is for the period from July 1997 through June 2001.

Lending in Assessment Area

A substantial majority of the bank's loans are made within its AA. In order to assess performance for these criteria, we reviewed a sample of 28 consumer and 29 agricultural-related loans originated during 1999 through June 2001. Our analysis determined that 89% of the number and 88% of the dollar amount of consumer loans were made within the AA. Additionally, 93% of the number and 96% of the dollar amount of agricultural-related loans were made within the AA.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	25	89	152	88	3	11	22	12
Agriculture	27	93	1,387	96	2	7	60	4
Total Reviewed	52	91	1,539	95	5	9	82	5

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

The loan portfolio reflects a good distribution of consumer loans and agricultural-related business loans among individuals of various income levels and businesses of different sizes within the AA. Our analysis included a sample of 30 consumer and 20 agricultural-related loans originated during the period of 1999 through June 30, 2001.

Our review determined that CNB lends to all applicants, regardless of their income category. Based on the 1990 Census, 39% of AA households are low-income while 14% are moderate-income. Our review determined that 23% of consumer loans were made to low-income households while 27% were made to moderate-income households. The following chart reflects the results of our sample of consumer originated in CNB's AA.

CONSUMER								
BORROWER INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	39%		14%		15%		32%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	23.3	10.7	26.7	26.7	23.3	46.0	26.7	16.6

CNB originates a satisfactory number of agricultural-related loans, the vast majority of which have been to "small businesses with revenues less than 1MM." Management continues to focus on providing loans that will enhance the local economy. The following chart reflects the combined results of our analysis of a sample of 20 agricultural-related loans made since the last Performance Evaluation.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
<i>BUSINESS REVENUES</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>
% of AA Businesses	95%	5%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

Geographic Distribution of Loans

As previously mentioned when describing the AA, both BNAs are moderate-income areas. Therefore, an analysis of loan distribution by geographic area would not provide a meaningful analysis.

Responses to Complaints

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

Fair Lending Review

An analysis of consumer automobile loans originated during 1999, public file comments, and consumer complaint information, was performed in accordance with the OCC's risk-based fair lending examination standards. That analysis revealed no basis for the OCC to conduct a comprehensive fair lending examination in connection with this CRA evaluation. The latest fair lending examination was performed in February 2000.