



SMALL BANK

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

PUBLIC DISCLOSURE

February 12, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Waggoner National Bank of Vernon
Charter Number 5203**

**1818 Texas Street
Vernon, TX 76384**

**Comptroller of the Currency
Fort Worth
9003 Airport Freeway Suite 275
North Richland Hills, TX 75201**

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.

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 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 the Waggoner National Bank, Vernon, TX, as prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of February 12, 2007. 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.

Waggoner National Bank (WNB) has a satisfactory record of meeting the community credit needs of its assessment areas (AA). We based our conclusion on the bank's lending practices. The factors and data supporting this rating are as follows:

- A significant majority of loans, 91% in number and 95% in dollar volume, are originated in Waggoner's AA.
- The bank's average loan-to-deposit ratio of 80% exceeds the standards for satisfactory performance given the bank's size, financial condition, local competition, and assessment area's credit needs.
- The distribution of loans to borrowers of different incomes shows a reasonable penetration of loans to individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans is reasonably dispersed throughout the AA.
- No consumer complaints regarding the bank's CRA performance were received during this evaluation period.

DESCRIPTION OF THE WAGGONER NATIONAL BANK OF VERNON

WNB is a \$217 million community bank located in the city of Vernon, Texas, which is situated in Wilbarger County. The main banking facility is located in downtown Vernon. The bank's branch is located in Electra, Wichita County, Texas, which is 20 miles east of Vernon. The main bank and branch facility include full-service lobbies, drive-through facilities, and automated teller machines (ATM).

WNB is locally-owned and managed. The bank is a subsidiary of Waggoner National Bancshares, Inc. The parent company does not own any other community banks. WNB has no operating subsidiaries and has had no merger or acquisition activity during the evaluation period.

The bank's main lending focus includes business, agriculture, and retail lending. WNB offers a wide variety of loan and deposit products for both individuals and businesses. In addition, the bank offers Internet-based banking services, including account inquiries and intra-bank transfers.

Total loans outstanding as of December 31, 2006, amounted to \$133 million, which represents 61% of total assets. The following chart details the composition of WNB's loan portfolio as of December 31, 2006.

Loan Portfolio Composition	\$ (000)	%
Agricultural Production/Other Agricultural	\$7,629	6 %
Farmland Real Estate	\$18,970	4 %
Consumer Loans	\$32,743	24 %
Commercial Real Estate	\$31,399	24 %
Commercial	\$16,088	12 %
Residential Real Estate	\$25,969	20 %
Total	\$132,798	100%

Source: December 31, 2006 Report of Condition

The most recent CRA examination was performed as of May 6, 2002. The bank received a "Satisfactory" rating at that examination. There are no legal or financial impediments to the bank's ability to meet the credit needs of its assessment area.

A community contact made during the evaluation disclosed that the local financial institutions are meeting the credit needs of the AA. The main credit needs identified are small business lending and home improvement loans.

DESCRIPTION OF ASSESSMENT AREAS

WNB has defined its assessment areas (AA) as Wilbarger County and western Wichita County because of the branch in Electra. Wichita County is included in the Wichita Falls Metropolitan Statistical Area (MSA). There are four census tracts in Wilbarger County and two census tracts

in the AA in Wichita County. The bank previously included only the western portion of one census tract in Wichita County due to its large size. The bank corrected their assessment area to include the whole census tract during the examination. There are no low-income census tracts in the AA. There is one moderate-income census tract in the Wichita County AA. The AA meets the requirements of the CRA regulations and does not arbitrarily exclude low- or moderate-income areas. Specific and economic data for this area are listed below.

Demographic and Economic Characteristics of Wilbarger and Wichita Counties Assessment Areas	
Population	
Number of Families	5,696
Number of Households	8,113
Geographies	
Number of Census Tracts	6
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	16.67%
% Middle-Income Census Tracts	33.33%
% Upper-Income Census Tracts	50.00%
% NA Census Tracts	0.00%
Median Family Income (MFI)	
2000 MFI for AA	\$38,000
2005 HUD-Adjusted MFI	\$45,100
Economic Indicators	
Unemployment Rate	1.73%
2000 Median Housing Value	\$46,320
% Households Below Poverty Level	14.00%

Source: 2000 Census data and HUD updated income data.

Based on updated Housing and Urban Development (HUD)-2006 Census information, the AA area has a total population of 21,249. There are 9,311 housing units in the AA, of which 61% are owner-occupied, 26% are renter-occupied, and 13% are vacant. Approximately 18% of the families in the AA are considered low-income.

Based on 2006 Dun and Bradstreet business demographic data, there are 1,864 businesses in the AA, of which 59% reported gross annual revenue less than or equal to \$1 million and 3% reported gross annual revenue greater than \$1 million. Because reporting is voluntary, 39% or 719 businesses did not report revenues.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

WNB's performance under the CRA is satisfactory. Conclusions with respect to the following three performance criteria, Lending in the Assessment Area, Lending to Borrowers of Different Incomes and Businesses of Different Sizes, and Geographic Distribution of Loans, are based on a sampling of the institution's loan portfolio that originated within the AA. Our review focused on 19 commercial and 24 consumer vehicle loans originated since the previous CRA evaluation.

Loan-to-Deposit Ratio

WNB's loan to deposit (LTD) ratio is good and exceeds the standards for satisfactory performance. The bank's LTD ratio averaged 80.30% over the 9 quarters beginning December 31, 2004 and concluding December 31, 2006. Please note that these banks are listed alphabetically by city and that no ranking is intended or implied.

Loan-to-Deposit Ratios		
Institution	Total Assets (000's) As of December 31, 2006	Average Loan-To-Deposit Ratio
First National Bank in Altus, OK	250,517	33.78%
First National Bank of Chillicothe	37,916	66.54%
State National Bank of Texas, Iowa Park	151,673	55.83%
First National Bank in Quanah	31,706	38.87%
First National Bank of Seymour	40,216	21.34%
The Bank of Vernon	20,861	54.97%
Waggoner National Bank of Vernon	217,367	80.30%

Source: Institutions Report of Condition from December 2004 to December 2006

Lending in Assessment Area

A significant majority of the bank's loans were made within its AA, which reflects an excellent commitment to meeting the credit needs of the AA. For purposes of this evaluation, examiners analyzed the sample discussed above. Our analysis determined that 91% of the number of loans and 95% of the dollar amount of loans in the sample were extended within the bank's AA. The table below reflects the distribution by product type.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	18	94.74	1	5.26	19	1,294	96,28	50	3.72	1,344
Consumer	21	87.50	3	12.50	24	268	91.91	24	8.09	292
Totals	39	90.70	4	9.30	43	1,562	95.48	74	4.52	1,636

Source: Sample of loans used for CRA performance analysis.

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

Overall, performance for lending to borrowers of different incomes and businesses of different sizes is reasonable and meets the standards for satisfactory performance. To perform our analysis, we reviewed income information for 19 commercial and agriculture loans and 24 consumer vehicle loans. We placed more weight on the bank's record of providing commercial loans including agriculture, since those loans represent the largest percentage.

Commercial Loans

The bank's lending to businesses of different sizes meets the standard for satisfactory performance. The bank emphasizes commercial and agriculture lending and markets its products to all business sizes in the AA. The sample of 18 business loans reviewed found that 78% of the number and 45% of the dollar volume of loans were extended to businesses with gross revenues of less than \$1 million per year.

Consumer Loans

WNB's lending to borrowers of different income levels is good. The distribution of loans in our sample reflects strong penetration to low-income households and good penetration to moderate-income households. Based on 2000 U. S. Census information, 24% of the households in the AA are low-income and approximately 17% of the households are moderate-income. Based on our sample, the bank made 62% of its consumer loans to low- and moderate-income households. The distribution of consumer loans exceeds the income characteristic of the AA. The results of this review are presented in the table below.

Lending to Borrowers of Different Income Levels								
Consumer Loan Sample								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	23.78	42.86	16.73	19.05	19.24	9.52	40.26	28.57

Source: Loan sample; U.S. Census data.

Geographic Distribution of Loans

A comparison of the three primary loan types shows that the geographic distribution of loans is adequate and meets the standards for satisfactory performance.

Commercial Loans

The bank's record of lending to businesses of various sizes reflects an adequate geographic dispersion throughout the bank's AA. There are no low-income census tracts in the bank's AA. Our sample indicates 11% of the number of loans originated in the moderate-income census tract compared to 13% of AA businesses in the moderate-income census tract. The majority of businesses are located in the middle- and upper-income tracts of the AA. The following chart reflects the results of our selected sample of commercial loans originated in the AA.

Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial	0.00%	0.00%	13.16%	11.11%	36.99%	38.89%	49.85%	50.00%

Source: Loan sample; Dun & Bradstreet data.

Consumer Loans

The bank meets the standards for satisfactory performance in geographic distribution of consumer loans compared to the income characteristics of the AA. There are no low-income census tracts in the AA. Our analysis indicates that the number of the bank's loans is slightly above the percentage of households in the moderate-income tract. The following chart reflects the results of our selected sample of consumer loans originated in the AA.

Geographic Distribution of Consumer Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer	0.00%	0.00%	15.37%	19.05%	26.05%	42.86%	58.58%	38.10%

Source: Loan sample; U.S. Census data.

Responses to Complaints

During this evaluation period, WNB did not receive any consumer complaints that relate to CRA performance.

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.