



## **PUBLIC DISCLOSURE**

July 27, 2015

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

The City National Bank of San Saba  
Charter Number 10806

209 E. Brown  
San Saba, Texas 76877

Office of the Comptroller of the Currency  
San Antonio North Field Office  
10001 Reunion Place, Suite 250  
San Antonio, Texas 78216-4165

**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 the 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.

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

City National Bank (CNB) of San Saba’s lending performance reflects Satisfactory response to meeting community credit needs in its assessment area (AA). Factors supporting the bank’s overall performance rating are summarized below.

- The average loan-to-deposit (LTD) ratio since the last examination is less than reasonable. Although the LTD ratio is low, external factors including drought conditions and significant declines in demographic data between the 2010 and 2014 Census data mitigate its impact on the overall rating conclusion.
- Lending performance is excellent, with the substantial majority of loans, both by number and dollar volume, originated to borrowers within the AA.
- Lending activities reflect excellent penetration to businesses of different sizes.

### SCOPE OF EXAMINATION

We evaluated CNB’s lending activities using Small Bank Community Reinvestment Act (CRA) Examination Procedures. The examination scope covered the period from January 1, 2013 through June 30, 2015. We analyzed loan originations during this evaluation period and identified commercial (including real estate) and agricultural/farm loans as primary products.

We selected a sample of 20 loans for each primary product, resulting in a total sample of 40 loans. We used the original sample to determine lending inside the AA and then replaced loans originating outside the AA with loans originating inside the AA to assess borrower distribution.

### DESCRIPTION OF INSTITUTION

CNB, an intrastate bank established in 1883, is a wholly owned subsidiary of CNB National Financial Corporation, a one-bank holding company. CNB’s one office is located in San Saba, Texas, approximately 105 miles northwest of Austin. CNB provides banking services Monday through Friday at the main office and its drive-in facility. CNB offers debit cards, but does not own an automated teller machine (ATM). As of June 30, 2015, assets totaled approximately \$56 million. Loans totaled \$9.5 million, or 17% of total assets. As seen in the following table, commercial and agricultural/farm loans comprise the majority of the loan portfolio.

<b>Loan Portfolio Summary by Loan Product</b>		
<b>June 30, 2015</b>		
<i>Loan Category</i>	<i>Dollar Volume \$(000)</i>	<i>% of Outstanding Dollars</i>
Commercial (Including Real Estate)	4,729	50%
Agricultural/Farm	2,891	30%
Consumer	1,699	18%
Residential	206	2%
Other Loans	10	0%
<b>Total</b>	<b>9,535</b>	<b>100%</b>

*Source: June 30, 2015 Call Report; Other loans represent 0.01%*

CNB offers a variety of traditional deposit and loan products. Deposit customers can choose from regular checking, savings, money markets, NOW, Super NOW, or certificates of deposit (CDs) products. The NOW account requires a minimum balance of \$1,500 and the Super NOW account requires a minimum balance of \$2,500. Customers can access their deposit, loan, or safety deposit box accounts, as well as bill pay, through Internet banking. Telephone banking is also available as a courtesy.

Based on its financial condition and size, there are no legal or financial factors that inhibit CNB's ability to meet credit needs in its AA. However, the decline in San Saba County demographic comparative data between the 2000 Census and 2010 Census could inhibit CNB's ability to lend. Most notable changes include the following facts.

- San Saba County now consists of two middle-income distressed census tracts (CTs). As defined, a distressed CT is a nonmetropolitan middle-income geography located in counties with:
  - 1) an unemployment rate of at least 1.5 times the national average;
  - 2) a poverty rate of 20% or more; or
  - 3) a population loss of 5% or more in a five-year period preceding the most recent decennial Census.

The two CTs in the AA are distressed because the poverty rate at the 2010 Census was 22%.

- The unemployment rate increased from 1.50% to 5.18%, the number of businesses dropped from 727 to 523, the percentage of low-income households increased from 24% to 31%, and the percentage of households below the poverty level increased from 15% to 22%.
- In addition, the U.S. Census website ([www.quickfacts.census.gov](http://www.quickfacts.census.gov)) estimates the population in San Saba County declined 8% (from 6,131 to 5,622) between the 2010 Census and July 2014.

CNB's current business strategy is to continue originating commercial and agricultural/farm loans as primary loan products. The prior CRA examination, dated April 5, 2010, assigned an overall Satisfactory rating to CNB's lending performance.

## **DESCRIPTION OF ASSESSMENT AREA(s)**

CNB designated San Saba County, a non-metropolitan statistical area (MSA), as its AA. The county's largest city, San Saba with a population of 3,099, is the county seat. The following table shows demographic information related to San Saba County.

Demographic Information for San Saba County Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	2	0%	0%	100%	0%
Population by Geography	6,131	0%	0%	100%	0%
Owner-Occupied Housing Units by Geography	1,649	0%	0%	100%	0%
Businesses by Geography	523	0%	0%	100%	0%
Farms by Geography	95	0%	0%	100%	0%
Family Distribution by Income Level	1,465	26%	19%	19%	36%
Household Distribution by Income Level	2,122	31%	13%	22%	34%
Census Median Family Income (MFI)		\$48,160	Median Housing Value		\$80,659
HUD – Adjusted MFI: 2013		\$50,500	Households Below Poverty Level		22%
HUD – Adjusted MFI: 2014		\$51,600	Unemployment Rate		5.18%
HUD – Adjusted MFI: 2015		\$52,800			

Source: 2010 Census

Service, agriculture, and retail are the AA's largest industries. San Saba is known as the "Pecan Capital of the World." Of the 523 total businesses in the AA, 92% are single location business with their sole operation located in San Saba County. The majority of businesses (69%) have annual revenues below \$1 million.

According to the US Bureau of Labor Statistics, the seasonally-adjusted unemployment rate for the nation was 5.3% as of June 2015, while the unemployment rate for the state of Texas was 4.2%. The San Saba County unemployment rate of 5.18% is higher than the Texas rate and just below the national unemployment rate.

The AA has strong financial competition with credit needs centered in small business and small farm lending. There are two other financial institutions located within the town of San Saba. Both, branches of larger financial institutions headquartered outside San Saba County, offer similar loan and deposit products as CNB.

Drought conditions have adversely affected the local economy. The U.S. Department of Agriculture (USDA) designated San Saba County as a primary natural disaster area due to drought during the entire assessment period. This designation allows eligible farm operators to qualify for low interest emergency loans from USDA's Farm Service Agency (FSA).

During a CRA evaluation, it is customary for examiners to contact various persons and/or organizations within the institution's AA to gain insight regarding local economic conditions and credit needs. We also evaluate credit needs by reviewing CRA Public Evaluations of other comparable banks and those operating in the same areas. For this performance evaluation, we discussed the needs of the community and the bank's performance with one community contact.

Through our review of the bank's performance context, as well as discussions with the community contact and bank management, we determined that the AA credit needs are centered in small business and small farm lending.

Overall, the community contact had positive feedback about CNB. The contact stated that the local financial institutions remain very involved with the community and that they perform well in meeting the financial and credit needs of the area.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**Loan-to-Deposit Ratio**

CNB’s LTD ratio is less than reasonable given the local competition and AA credit needs. As previously noted, local competition consists of two financial institutions that are branches of institutions headquartered outside San Saba County. One institution, Arrowhead Bank (Arrowhead), with total assets of \$159 million at June 30, 2015, has four other offices in three different counties. The June 30, 2015 FDIC Market Share Report reflects Arrowhead has deposits totaling \$47.5 million in San Saba County, or a deposit market share of 41%. However, the deposits in San Saba County represent only 33% of total deposits for all five Arrowhead offices. The other institution, The Commercial National Bank of Brady (Commercial) with total assets of \$156.6 million, has one other office. The June 30, 2015 FDIC Market Share Report reflects Commercial has deposits totaling \$21.5 million in San Saba County, or a deposit market share of 18%. The deposits in San Saba County represent only 15% of total deposits for both Commercial offices.

In comparison, CNB, with total assets of \$56 million at June 30, 2015, has one office. The FDIC Market Share Report for June 30, 2015, reflects CNB has deposits totaling \$47.7 million or a deposit market share of 41%. CNB is not situated similarly to either of the two banks located in San Saba County because both banks have offices that originate loans in other counties, and both are 2.75 times larger than CNB.

CNB had a quarterly average LTD ratio of 21% for the 22 quarters between March 2010 and June 2015. To assess CNB’s performance, we compared its average LTD ratio to the ratios of four other institutions in the surrounding counties with only one office. As reflected in the following table, the average LTD ratios for the four institutions ranged from 35% to 60%. The overall quarterly average LTD ratio for all four institutions is 49.5%.

Institution	Total Assets As of 6/30/2015 \$(000s)	Average Quarterly LTD Ratio As of 6/30/2015
The Commercial Bank, Mason County	\$38,423	60%
<b>City National Bank of San Saba, San Saba County</b>	<b>\$56,180</b>	<b>21%</b>
The First National Bank of Eldorado, Schliecher County	\$68,180	35%
Mason Bank, Mason County	\$103,805	52%
The Brady National Bank, McCulloch County	\$109,341	51%

CNB’s LTD ratio is lower than the ratios for the four institutions. However, the demographic data for Mason County, McCulloch County, and Schliecher County has not experienced the same decline as seen in San Saba County. For example, in Mason County, 16% of the

households live below the poverty level, but the population grew 1.5% between the 2010 Census and July 2014. In McCulloch County, 23% of the households live below the poverty level and the population dropped by 1%. In Schliecher County, only 12% of the households live below the poverty level, but the population dropped almost 9%. While none of the banks shown in the table is similarly situated to CNB, the increased poverty level, population decline, and increased unemployment rate in San Saba County impact CNB’s ability to lend.

**Lending in Assessment Area**

Lending in the bank’s AA is excellent with a substantial majority of loans originated inside the AA, exceeding the standard for satisfactory performance. The following table reflects the percentages, by number and dollar volume, of loans originated inside the AA. We noted both loans that originated outside the AA were to borrowers located just outside the AA in a neighboring county.

<b>Lending Inside San Saba County</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Commercial Loans	19	95	1	5	20	678,786	97	27,071	4	20
Agricultural/Farm Loans	19	95	1	5	20	436,716	99	2,494	1	20
Totals	38	95%	2	5%	40	1,115,502	97%	29,565	3%	40

Source: Sample of loans.

**Lending to Businesses of Different Sizes**

CNB has excellent distribution of loans to businesses and farms with annual revenues less than \$1 million, exceeding the standard for satisfactory performance.

Commercial lending activity reflects excellent distribution of loans originated to businesses with annual revenues less than \$1 million (small businesses). The percentage of loans originated to small businesses exceeds the percentage of small businesses in the AA.

<b>Borrower Distribution of Loans to Businesses in San Saba County</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/ Unknown</b>	<b>Total</b>
% of AA Businesses	69.22	2.68	28.11	100%
% of Bank Loans in AA by #	89	11	NA	100%
% of Bank Loans in AA by \$	65	35	NA	100%

Source: Loan sample; Dunn and Bradstreet data.

Loan size further supports the excellent distribution. In our sample, 89% of the loans originated for less than \$100,000. The table below illustrates distribution of loans based on the loan size.

<b>Borrower Distribution of Loans to Businesses by Loan Size in San Saba County</b>				
<i>Loan Size</i>	<i>Number of Loans</i>	<i>Percent of Number</i>	<i>Dollar Volume of Loans</i>	<i>Percent of Dollar Volume</i>
\$0 - \$25,000	11	58	99,058	15
\$25,001 - \$50,000	3	16	96,000	14
\$50,001 - \$75,000	2	11	138,383	20
\$75,001 - \$100,000	1	5	89,595	13
Over \$100,000	2	11	225,750	38

Source: Loan sample

CNB’s distribution of loans to small farms, defined as having annual gross revenues of less than \$1 million, is excellent. As reflected in the following table, the percentage of loans originated to small farms exceeds the percentage of small farms in the AA.

<b>Borrower Distribution of Loans to Farms in San Saba County</b>				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>&gt;\$1,000,000</i>	<i>Unavailable/ Unknown</i>	<i>Total</i>
% of AA Farms	96.84	1.05	2.11	100%
% of Bank Loans in AA by #	100	0	NA	100%
% of Bank Loans in AA by \$	100	0	NA	100%

Source: Loan sample; Dunn and Bradstreet data

We also reviewed the distribution of agricultural and farm loans by loan size. Our analysis revealed that 95% of the loans in our sample originated for less than \$100,000. We noted that 84% of the loans originated for \$25,000 or less.

<b>Borrower Distribution of Loans to Farms by Loan Size in San Saba County</b>				
<i>Loan Size (000's)</i>	<i>Number of Loans</i>	<i>Percent of Number</i>	<i>Dollar Volume of Loans</i>	<i>Percent of Dollar Volume</i>
\$0 - \$10,000	11	57.9	38,742	8.9
\$10,001 - \$25,000	5	26.3	76,851	17.6
\$25,001 - \$50,000	1	5.3	33,965	7.8
\$50,001-\$100,000	1	5.3	99,658	22.9
Over \$100,000	1	5.3	187,599	43

Source: Loan sample

### **Geographic Distribution of Loans**

Because there are no low- or moderate-income CTs in San Saba County, a meaningful geographic analysis could not be performed. However, both middle-income CTs in the AA are designated distressed. The high percentage of loans that originate in the two CTs (95% of number and 97% of dollar volume) reflects favorably on CNB's lending performance.

### **Responses to Complaints**

CNB did not receive any consumer complaints related to its CRA performance between April 5, 2010 (date of the previous CRA examination) and June 21, 2015 (date of current examination).

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.