



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

July 20, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Comanche National Bank
Charter Number 4246

100 East Central Street Comanche, TX 76442

Office of the Comptroller of the Currency

9003 Airport Freeway, Suite 275, North Richland Hills, TX 76180-9127

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.

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The Comanche National Bank (CNB) has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- The loan-to-deposit (LTD) ratio is reasonable when considering performance context issues and averaged 41.7% during the evaluation period.
- A majority of CNB's loans were originated within the assessment area (AA).
- CNB's distribution of loans to businesses with gross revenues of less than \$1 million is reasonable. CNB's overall distribution of home mortgage products to low- and moderate-income (LMI) families is reasonable when considering performance context issues.
- No consumer complaints regarding CNB's CRA performance were received during this evaluation period.
- CNB's geographic distribution of residential and business loans to LMI census tracts reflects reasonable dispersion.
- CNB's community development (CD) performance demonstrates adequate responsiveness to the CD needs of its AA.

Scope of Examination

CNB qualifies as an Intermediate Small Bank under the CRA regulation and is thus subject to a Lending Test and a CD Test. The Lending Test evaluates the bank's record of helping to meet the credit needs of its AA through its lending activities. The CD Test evaluates a bank's CD lending, qualified investments, and services.

The evaluation under the Lending Test covers loans originated between August 24, 2009 (the date of the prior Performance Evaluation) and July 20, 2015 (the date of the current Performance Evaluation). Performance under the lending test was assessed based on a review of CNB's residential real estate, farm & agriculture (Ag) real estate, and commercial real estate loans. CD activities were also evaluated over the period from August 24, 2009 through July 20, 2015.

For our evaluation of the distribution of loans, we utilized the demographics and geographies related to the 2010 US Census. Our evaluation is based on accurate data. We tested/sampled loans to verify the accuracy of data used for this evaluation. We also verified CD loans, investments and services submitted by management to ensure the investments and activities met the regulatory definition for community development. We excluded any items that did not meet the definition or purpose of community development.

As no affiliates exist, their activities were not considered in this evaluation.

Description of Institution

CNB is a full-service community bank located approximately 110 miles southwest of Fort Worth, Texas. The bank is a wholly-owned subsidiary of Comanche National Corporation of Delaware, the middle-tiered holding company owned by Comanche National Corporation. In August 2006, Comanche acquired First National Bank of Santo (Santo) along with its branches located in Mingus, Palo Pinto and Millsap. Santo was merged into Comanche National Bank during February 2008.

The Bank operates seven full service locations (Comanche, Santo, Mingus, Palo Pinto, Millsap, Cool, and Jacksboro) that offer a variety of products and services to its customers including deposit and loan products, as well as ATM/Debit cards, overdraft protection, bank by mail, night depository, safe deposit, wire transfers, internet banking (including bill pay) and cash management. All facilities except the Palo Pinto location offer drive-up banking. In addition, the Comanche, Santo, Cool, and Jacksboro locations offer ATM services. CNB has not closed any permanent branches during this evaluation period. It is management's strategy to grow the bank over the next five years through development of new lines of business. The success of this plan must be accomplished through the development of strong leadership, strong policies, and a culture that rewards outstanding customer service, sound banking practices, and good financial results.

As of March 31, 2015, CNB had total assets of \$343 million, total loans of \$106 million, and total deposits of \$301 million. The following table represents the loan distribution as of March 31, 2015.

Loan Portfolio Composition as of March 31, 2015		
Loan Category	\$(000)	%
Farm loans & Agriculture RE	36,177	34.1%
Residential Real Estate	31,096	29.3%
Commercial Real Estate	16,840	15.9%
Consumer & Other	11,469	10.8%
Commercial & Industrial	7,570	7.1%
Construction & Development	2,917	2.8%
Total	\$106,069	100.0%

Source: March 31, 2015 Report of Condition

CNB's last CRA examination was performed as of August 24, 2009, using Small Bank CRA Procedures, and resulted in a "Satisfactory" rating. CNB's financial condition does not inhibit its ability to meet credit needs in its AA. Additionally, there are no legal impediments to the bank's ability to meet the credit needs of the communities served.

Description of Assessment Area

CNB has two identified assessment areas. The first is the Comanche AA and consists of four whole and contiguous counties (Comanche, Erath, Palo Pinto and Jack). This area consists of 24 CTs and is not part of any Metropolitan Statistical Area (MSA). Comanche County consists of one moderate-income CT and three middle-income CTs that are identified as distressed or underserved. Erath County has eight CTs, four are upper-income and four are middle-income which are considered distressed or underserved. Palo Pinto County has nine CTs with one being upper-income, three moderate-income, and five middle-income that are distressed or underserved. Jack County has three CTs, all upper-income. There are no low-income CTs in the Comanche AA.

The second is the Parker AA and consists of two CTs in Parker County that the Bank can reasonably service from its Millsap and Cool branches. This area has two CTs, one is upper-income and one is middle-income. The Parker AA is part of the Fort Worth-Arlington MSA. There are no low-income CTs in the Parker AA.

Both identified AAs meet the requirements of the regulation and do not arbitrarily exclude low- or moderate-income geographies. Our review focused on the Comanche AA since it covers a majority of the bank's overall AA. The Parker AA is much smaller and only includes the western part of Parker County.

Below is a description of the assessment areas, which includes information on demographics, housing, and family data.

Demographic and Economic Characteristics of the Comanche AA	
Population	
Total Population	89,019
Number of Families	22,046
Number of Households	32,617
% Retired Households	15.87%
% Social Security Households	32.78%
Businesses and Farms	
Number of Businesses and Farms	7,410
Businesses and Farms with less than five employees	68.38%
Businesses and Farms with less than \$500,000 annual revenue	71.04%
Residential	

% Owner occupied units	51.85%
Geographies	
Number of Census Tracts	24
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	16.67%
% Middle-Income Census Tracts	50.00%
% Upper-Income Census Tracts	33.33%
Demographics	
Low income families	19.26%
Moderate-income families	18.44%
Median Family Income (MFI)	
2010 Census MFI	\$47,817
2014 HUD-Adjusted MFI	\$51,600
Economic Indicators	
Unemployment Rate	3.75%
2010 Median Housing Value	\$97,030
% Households Below Poverty Level	17.56%

Source: 2010 Census data and HUD updated income data

Demographic and Economic Characteristics of the Parker AA	
Population	
Total Population	23,238
Number of Families	5,729
Number of Households	7,167
% Retired Households	18.08%
% Social Security Households	27.77%
Businesses and Farms	
Number of Businesses and Farms	2,133
Businesses and Farms with less than five employees	71.17%
Businesses and Farms with less than \$500,000 annual revenue	73.56%
Residential	
% Owner occupied units	71.18%
Geographies	

Number of Census Tracts	3
% Low-Income Census Tracts	0.0%
% Moderate-Income Census Tracts	0.0%
% Middle-Income Census Tracts	66.67%
% Upper-Income Census Tracts	33.33%
Demographics	
Low income families	15.95%
Moderate-income families	17.73%
Median Family Income (MFI)	
2010 Census MFI	\$64,976
2014 HUD-Adjusted MFI	\$68,700
Economic Indicators	
Unemployment Rate	2.76%
2010 Median Housing Value	\$141,643
% Households Below Poverty Level	9.15%

Source: 2010 Census data and HUD updated income data

Information from bank management and a community contact indicate that the local economic conditions are improving as the drought conditions in the area have subsided with the abundance of rain over the past year. The area lakes are full, water sources are abundant, and there is much improvement in Ag production and cattle operations. The recent decline in oil prices has had some adverse impact to Jacks County area. Palo Pinto County has experienced a pick-up in construction activity. Major employers in the area include the local hospital, school districts and dairies.

In the Comanche AA, the 2010 unemployment rate remained low at 3.75%; however, 17.56% of households were below the poverty level. The unemployment rate and the rate of households below the poverty level were much better for the Parker AA at 2.76% and 9.15%, respectively.

The primary community development credit and investment needs in the Comanche AA continue to be affordable housing and the Comanche hospital. There is opportunity to support the Santo, Texas community with their needs for sewer systems and boundaries as they progress with city incorporation. CD service needs include the support/involvement of bank officers and employees for local economic development and other civic oriented organizations.

Several national or state chartered financial institutions offer competition to CNB. This includes branch facilities of institutions not chartered in the counties served. Competition for loans and deposits is keen, and the competitors are highly visible in the communities.

Conclusions with Respect to Performance Tests

LENDING TEST

CNB's performance under the Lending Test is **“Satisfactory.”**

CNB's primary business lines are farm and agriculture real estate loans, residential real estate loans, and commercial real estate lending. In our sample, we included the farm & agriculture real estate loans as well as the commercial real estate loans and relied on data reported under the Home Mortgage Disclosure Act (HMDA) for residential real estate loans to draw our conclusions. Equal weight was given to each type of lending when evaluating lending performance based on the criteria tested below.

Loan-to-Deposit Ratio

CNB's LTD ratio is reasonable and meets the standards for satisfactory performance when considering the volume of public funds on deposit at the bank and the credit needs of both AA's. The LTD ratio measures the extent to which the bank has returned the deposits it has acquired to the community in the form of loans. The average of this ratio for each quarter-end since the previous CRA examination is used to determine performance in this area. The LTD for CNB averaged 41.7% over the last 23 quarters. This ratio ranged from a quarterly low of 34.1% as of December 31, 2014 to a quarterly high of 49.6% as of September 30, 2009. The decline in the ratio is primarily attributable to the sharp rise in the average volume of public funds beginning in the fourth quarter of 2013. Excluding public funds, the bank's LTD ratio would have averaged 52.1% during the evaluation period.

There are 7 other financial institutions (banks, thrifts, savings banks) chartered in the two AAs that CNB competes with and are considered to be the comparative group. These institutions ranged in size from \$32 million to \$259 million in total assets. The average LTD ratio for community banks in the comparative group during the evaluation period was 60.6%, and ranged from a low average LTD of 42.2% to a high average LTD of 83.2%. Although CNB's LTD ratio is only average when compared to this group, CNB's ratio reflects a willingness to provide credit in light of mitigating factors. CNB regularly makes very small loans to individuals with limited resources. CNB currently has 117 active loans with an originating balance less than \$1,500. Of these active loans, the smallest original amount was \$280.

Lending in Assessment Area

CNB's lending in its AAs reflects satisfactory performance, meets applicable standards and reflects the bank's commitment to meeting the credit needs of its communities. A majority of the loans in all three lending lines we assessed (farm & agriculture real estate loans, residential real estate loans, and commercial real estate loans) were made inside the bank's AA. As depicted in Table 1A, 79% of the number and 78% of the dollar amount of residential real estate loans were originated in CNB's AA, reflecting reasonable penetration.

Table 1A – Residential RE Lending in the Parker and Comanche AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	106	75.71	34	24.29	140	9,134	75.16	3,019	24.84	12,153
Improvement	27	81.82	6	18.18	33	1,895	83.00	388	17.00	2,283
Refinance	36	90.00	4	10.00	40	3,054	85.69	510	14.31	3,564
Totals	169	79.34	44	20.66	213	14,083	78.24	3,917	21.76	18,000

Source: data reported under HMDA

As depicted in Table 1B, 88% of the number and 80% of the dollar amount of farm & agriculture real estate and commercial real estate loans were originated within the Comanche AA, also reflecting a reasonable penetration.

Table 1B – Commercial Lending in the Comanche AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000s)
	#	%	#	%		\$(000s)	%	\$(000s)	%	
Farm & Ag RE	18	90%	2	10%	20	2,984	89%	369	11%	3,354
Commercial RE	17	85%	3	15%	20	2,040	69%	907	31%	2,947
Totals	35	88%	5	12%	40	5,024	80%	1,276	20%	6,301

Source: Sample of loans

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

The distribution of loans reflects reasonable penetration among individuals of different income levels and businesses of different sizes, and meets the standard for satisfactory performance. To perform our analysis, we reviewed data reported under HMDA for residential mortgage loans, revenue information for 20 farm & agriculture real estate loans, and revenue information for 20 commercial real estate loans, all located within the Comanche AA. Each product type was weighted equally in this evaluation. More detail on lending performance of each of the products is discussed below.

Residential Loans

CNB's distribution of residential mortgage loans among borrowers of different income levels is reasonable and meets the standard for satisfactory performance. To conduct this analysis we compared the percentage of bank loans to the percentage of families that are classified as low-, moderate-, middle-, or upper-income. As illustrated in Table 2A below, the distribution of home purchase loans to low-income families at 4% is below the percent of low-income families in the AA at 19%. However, the performance is reasonable given that almost half of the families in the AA either are retired or receive social security assistance, indicating fixed incomes, and there is a

moderate level (17.56%) of families in the AA below the poverty level who likely could not qualify for a residential mortgage. The distribution of home purchase loans to moderate-income families is satisfactory at 17%, which is line with the 18% of families in the AA being moderate-income, based on the 2010 U.S. Census data.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.26	4.08	18.44	17.35	19.34	15.31	42.96	60.20
Improvement	19.26	0.00	18.44	3.85	19.34	30.77	42.96	65.38
Refinance	19.26	0.00	18.44	12.50	19.34	18.75	42.96	68.75

Source: data reported under HMDA; U.S. Census data. Income NA for 3.06% of home purchases

Commercial Real Estate and Farm & Agriculture Real Estate Loans

CNB demonstrated a reasonable level of lending to businesses of different sizes. For this analysis we compared the percentage of loans to small businesses (businesses with revenues less than or equal to \$1 million) to the percentage of businesses in the AA that are classified as small businesses. Within our sample of commercial real estate loans, 85% of the number of loans was originated to small businesses. This shows excellent performance relative to the demographic comparator where 72% of the businesses within the AA are classified as small businesses. While 47% of the dollar volume of loans were originated to small businesses, this is reasonable since the sample loans to non-small business were very large which skewed the dollar volume analysis in that direction.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	72.17	3.31	24.52	100%
% of Bank Loans in AA by #	85.00	15.00	0	100%
% of Bank Loans in AA by \$	47.32	52.68	0	100%

Source: Loan sample; Dunn and Bradstreet data

Within our sample of farm & agriculture real estate loans, 90% of the number of loans was originated to small businesses. This reasonably approximates the demographic comparator where 97% of the businesses within the AA are classified as small businesses. Our sample also showed 78% of the dollar volumes of loans were originated to small businesses

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses	96.85	2.14	1.01	100%
% of Bank Loans in AA by #	90.00	10.00	0.00	100%
% of Bank Loans in AA by \$	78.08	21.92	0.00	100%

Source: Loan sample; Dunn and Bradstreet data

Geographic Distribution of Loans

CNB’s geographic distribution of residential and business loans to moderate-income census tracts reflects reasonable dispersion and demonstrates a pattern indicative of an institution seeking to service the credit needs of all census tracts in its AA. Moreover, CNB originated loans in all census tracts in their AA during the evaluation period. There are no low-income census tracts in the bank’s AA.

Residential Loans

As indicated in Table 3A, CNB originated 10% of 1-4 family real estate purchase loans and 13% of 1-4 family real estate refinance loans in the moderate-income census tracts. These are in line with the 12% of AA owner occupied housing in the moderate-income census tracts. This demonstrates reasonable distribution of residential mortgages to the moderate-income geography of the AA.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	12.29	10.20	52.08	69.39	35.64	20.41
Home Improvement	0.00	0.00	12.29	0.00	52.08	57.69	35.64	42.31
Refinance	0.00	0.00	12.29	12.50	52.08	65.63	35.64	21.88

Source: data reported under HMDA; U.S. Census data

Commercial Real Estate and Farm & Agriculture Real Estate Loans

Table 3B below illustrates the bank originated 10% of commercial real estate loans in the moderate-income census tracts which is in line with the 12.8% of the AA businesses being located in the moderate-income census tracts. This demonstrates reasonable distribution of business loans to the moderate-income geography of the AA.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Businesses	0.00	0.00	12.82	10.00	52.45	75.00	34.73	15.00

Source: loan sample; D & B data

Table 3C below illustrates the bank originated 10% of farm & agriculture real estate loans in the moderate-income census tracts which is in line with the 11% of the AA Farms being located in the moderate-income census tracts. This demonstrates reasonable distribution of business loans to the moderate-income geography of the AA.

Table 3C - Geographic Distribution of Farm and Ag Real Estate Loans the Comanche AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farms	0.00	0.00	11.46	10.00	51.26	65.00	37.28	25.00

Source: loan sample; D & B data

Responses to Complaints

There have been no consumer complaints relating to CNB’s CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

CNB's performance under the Community Development Test is **Satisfactory**.

CNB's responsiveness to the community development needs of the AA through CD lending, investments, and services is adequate. Our conclusion is based on the bank's level of activity and performance context. The number and amount of community development loans, services, and qualified investments is satisfactory, based on the bank's size, financial condition, and the need and availability of such opportunities in the bank's AA. The bank centers its CD efforts primarily in qualified lending, donations and services. During the evaluation period, management and the Board made numerous donations and community development loans, and participated in numerous community development services. Employees are active within the community and are sensitive to community development opportunities.

CNB has two identified assessment areas (See Description of Assessment Areas section of this report). The bank's main office and 4 of its branches are located in the Comanche AA and serve four moderate-income CTs and twelve nonmetropolitan middle-income CTs that are designated as distressed/underserved. The main bank and three of the branches are located in a moderate-income CT or nonmetropolitan middle-income CT that is designated as distressed/underserved. Considering comments by a community contact and the bank's own assessment of the AA, we determined the bank is proactive in meeting the needs of its community.

Number and Amount of Community Development Loans

During the evaluation period, CNB originated 27 loans that directly benefit its AA and qualify as community development. The total amount of these loans is \$5.5 million (16.3% of Tier 1 Capital as of 3/31/2015). These loans help support services for LMI families and individuals, economic development of moderate-income CTs and middle-income geographies that are distressed/underserved, and assist in revitalizing and stabilizing moderate-income geographies.

Some uses of the loan proceeds were for new equipment at the county hospital and equipment/facilities to support county services and local school districts. During the assessment period, the bank made \$2.6 million in loans that promote economic development by creating permanent jobs for low wage workers. One such business provides 74 jobs to LMI individuals in the AA. CD lending activity reflects adequate responsiveness to community needs.

Number and Amount of Qualified Investments

Qualifying investments include investments, deposits, membership shares, or grants that have CD as their primary purpose. Considering the needs and opportunities in the Comanche AA CNB's performance context and capacity, the bank's CD investment performance is adequately responsive to the community's needs. CNB made 135 donations representing \$60,000 in qualified investments during the evaluation period.

The recipients of these donations have historically targeted support and services to LMI individuals. Some examples of qualifying donations include \$11,000 in scholarships to LMI

students in its AA, donations totaling \$10,000 to local schools and educators to purchase supplies, and community rehabilitation in the Comanche AA totaling \$6,000. In addition, the bank supported economic development by funding agricultural program seminars to improve dairy & cow/calf operations, crop tillage and pecan irrigation services.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, CNB exhibited adequate responsiveness to the CD service needs of its AA. CNB's has 28 documented instances of qualifying community development services during this review period. Many employees participate in one or more community-related services, such as the local Chamber of Commerce, Comanche Economic Development Corporation, financial counseling/education at local high schools, and the Comanche Hospital Foundation to name a few.

CD services reflect adequate responsiveness to the needs and opportunities in the AA. Service delivery systems are reasonably accessible to geographies and individuals of different income levels in the AA. Over half of the students in all of the schools in the bank's AAs come from LMI families. All the schools qualify for the federal government's free and reduced lunch plan.

Responsiveness to Community Development Needs

The bank's CD activities reflect adequate responsiveness to CD needs. Qualified services focus on volunteer activities within the community. In advisory capacities, CNB officers and employees serve various community development organizations that benefit LMI individuals and families.

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.