



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**July 06, 2004**

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

**The Commercial National Bank of Brady  
Charter Number 8573**

**105 East Second Street  
Brady, TX 76825**

**Comptroller of the Currency  
Austin Field Office  
8310 North Capital of Texas Highway, 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 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.**

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## **INSTITUTION'S CRA RATING This institution is rated “Outstanding.”**

Lending performance for Commercial National Bank (CNB) is outstanding given its size, financial condition, and known credit needs of its assessment area (AA).

- CNB’s lending performance exceeds the standard for satisfactory performance. The bank’s loan-to-deposit (LTD) ratio has averaged 62% during the evaluation period, significantly exceeding the local peer bank average of 47%.
- A substantial majority of CNB’s loans, 92% of the number and 94% of the dollar volume, are in the bank’s AA.
- CNB’s distribution of loans to individuals of varying incomes and to businesses and farms of different sizes exceeds the standard for satisfactory performance, given the demographics of the AA.
- The geographic distribution of loans in CNB’s AA exceeds the standard for satisfactory performance.
- There have been no complaints with respect to CNB’s performance under the Community Reinvestment Act (CRA) since the 1998 CRA Performance Evaluation.

## **DESCRIPTION OF INSTITUTION**

CNB is an \$83 million rural community bank located in Brady, Texas. Brady, the county seat of McCulloch County, is located approximately 115 miles northwest of Austin. The bank operates one main office, a drive-through facility, and one-on-site automatic teller machine (ATM).

CNB offers full banking services that include consumer, residential, small business, and small farm loan products. Customers are provided 24-hour banking service through TeleBank and TelePC Banking. TeleBank is a telephone audio response system that allows customers to obtain account balance information and transfer funds between accounts. TelePC is a software-based computer system that gives customers the same level of access as TeleBank using their home computers.

The bank’s primary competition includes another locally owned bank and a Federal Land Bank. Also competing for the consumer loan base are small finance companies. CNB’s primary focus is to promote economic development both in Brady and in McCulloch County through its lending programs and active community involvement.

As of March 31, 2004, CNB had total assets of \$83 million with 51% centered in the loan portfolio. The bank’s primary loan products include agricultural, commercial, residential, and consumer loans. The chart on the following page details a breakdown of CNB’s loan portfolio as of March 31, 2004.

	Dollar Amount	% of
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<b>Loan Type</b>	<b>(000's)</b>	<b>Total Loans</b>
Real Estate (RE) Construction	420	1
RE Farmland	5,551	13
RE Residential (1-4)	13,939	33
Multifamily	1,729	4
RE Nonfarm Nonresidential	5,548	13
Agricultural Production	3,418	8
Commercial and Industrial	4,886	12
Consumer	5,985	15
Other	544	1
<b>Total</b>	<b>42,020</b>	<b>100.0</b>

The bank is owned by the single-bank holding company Commercial National Corporation. Total assets for the holding company were \$84 million as of March 31, 2004.

Bank lobby and drive-through services are provided Monday through Friday. Drive-through service is also available on Saturdays. CNB has no minimum loan requirement in place. 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. The bank was rated "Outstanding" at its last CRA examination on December 31, 1998. No legal impediments or other factors hinder CNB's ability to provide credit in its AA.

## **DESCRIPTION OF McCULLOCH COUNTY**

CNB has designated all of McCulloch as its AA. Principal communities located in the AA include the City of Brady, and the smaller surrounding communities of Melvin, Voca, Rochelle, and Lohn. Specific demographic data for this area is listed below.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	2,279
Number of Households	3,288
<i>Geographies</i>	
Number of Census Tracts/BNA	3
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	34%
% Middle-Income Census Tracts/BNA	33%
% Upper-Income Census Tracts/BNA	33%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$21,829
2001 HUD-Adjusted MFI	\$36,100
2004 HUD-Adjusted MFI	\$36,380
<i>Economic Indicators</i>	
Unemployment Rate	3%
2004 Median Housing Value	\$45,333
% of Households Below Poverty Level	23%

BNA = Block Numbering Area

HUD = Department of Housing and Urban Development

The bank's AA is comprised of three contiguous census tracts. This area meets the requirements of the regulation and does not arbitrarily exclude any low- and/or moderate-income (LMI) geographies. A further description of the AA is presented on the following page.

There are no low-income census tracts within the AA. With approximately 6,000 of the county's 8,000 residents, the City of Brady is the most populous census tract. Based on the 2000 census, the central district of the City of Brady is located in a moderate-income census tract, with the majority of rural portions classified as upper-income. Upper and middle-income areas in the county divide the town of Melvin. The census tract that includes Voca is designated as an upper-income area, and the census tract surrounding Lohn and Rochelle are middle-income areas.

Approximately 32% of the families in the AA are considered low-income. Moderate-income families approximate 16% of the population, while middle- and upper-income families comprise the remaining 52%. There are 4,184 housing units in the AA, of which 57% are owner-occupied, 21% renter-occupied, and 22% vacant. Local estimates indicate that 40% of the vacant units are uninhabitable. On average, housing stock is 40-years old. A local appraiser stated that the majority of units currently for sale in the AA range between \$40,000 and \$75,000. Major area employers include Brady ISD, Heartland Rig International, Heart of Texas Memorial Hospital and Wal-Mart.

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. This contact was a Commissioner for the City of Brady. This contact stressed the need for affordable housing and rental properties for LMI families within the AA. The contacts further stated that economic conditions were stable and that CNB is active in the community and responsive to the credit needs in the counties it serves. The contact stated that there were no unmet credit needs in the City of Brady.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management 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 very good, given its asset size, financial condition, and lending opportunities in the AA. Since the last CRA examination, the LTD ratio has decreased slightly from 64% at December 31, 1998 to 59% at March 31, 2004; however, the average LTD ratio over the past 22 quarters was 62% and exceeded the local peer average. The average LTD ratio of three similarly situated banks headquartered in the local area was 47% during this same time period. The asset size and LTD ratio for CNB and its competing banks are listed below.

Institution	Assets as of 3/31/04*	Average LTD Ratio%**
Llano National Bank	65M	49.22
Brady National Bank	63M	69.72
City National Bank – San Saba	48M	23.47
Local Peer Average		47.47
<b>Commercial National Bank</b>	<b>83M</b>	<b>61.53</b>

\* Asset sizes of institutions are in thousands (000's)

\*\*The average LTD ratio is based on the period between December 1998 and March 2004.

### 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 23 consumer, 25 residential, 24 commercial, and 25 agricultural loans originated during 2003 through March 2004. Our analysis determined that 95% of the number and 94% of the dollar amount of our sampled loans were made within the AA. A summary of our sample is listed below.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Consumer	22	96	146	93	1	4	10	7
Residential	22	88	598	77	3	12	176	23
Commercial	24	100	1,379	100	0	0	0	0
Agricultural	24	96	1,338	98	1	4	30	2
Total Reviewed	92	95	3,461	94	5	5	216	6

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

CNB's loan portfolio reflects an excellent distribution among individuals of various income levels and commercial and agricultural-related businesses of different sizes within the AA. Our analysis included a sample of 22 consumer, 22 residential, 24 commercial, and 24 agricultural loans originated during the period of January 2003 through March 2004.

Our analysis determined that CNB lends to all applicants, regardless of their income category. Based on the 2000 Census, 48% of AA households are LMI. Our review determined that 68% of consumer loans were made to LMI households. However, the bank's penetration of residential loans to low-income families was below AA demographics. Based on the 2000 Census, 28% of AA families are low-income. According to the community contact made during this evaluation, there are very few homes available in the AA at selling prices that LMI families could qualify for. The following chart reflects the results of our selected sample of consumer loans originated in CNB's AA.

<b>CONSUMER</b>								
<b>Borrower Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Households</b>	<b>32</b>		<b>16</b>		<b>20</b>		<b>32</b>	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Total</b>	50	24	18	7	9	10	23	59

<b>RESIDENTIAL REAL ESTATE</b>								
<b>Borrower Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Families</b>	<b>28</b>		<b>18</b>		<b>24</b>		<b>30</b>	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Total</b>	18	17	18	12	14	8	50	63

CNB originates commercial and agricultural-related loans in a manner consistent with area demographics. The bank's distribution of loans to "small businesses and farms with revenues less than \$1 million" is reflective of CNB's focus on providing loans that will enhance the local economy. The following charts reflect data from the review of 48 commercial and agricultural-related loans originated between January 2003 and March 2004.

<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES - COMMERCIAL</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94	6
% of Bank Loans in AA #	100	0
% of Bank Loans in AA \$	100	0

<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES - AGRICULTURAL</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	99	1
% of Bank Loans in AA #	100	0
% of Bank Loans in AA \$	100	0

### Geographic Distribution of Loans

The geographic distribution of loans in CNB's AA exceeds the standard for satisfactory performance, given LMI demographic criteria. A review of 22 consumer, 22 mortgage-related loans, 24 commercial, and 24 agriculture-related loans originated in January 2003 through March 2004 is detailed in the following tables.

<b>CONSUMER</b>								
Census Tract Income Level	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
%of AA Households	0		66		17		17	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Totals</b>	0	0	68	43	32	57	0	0

<b>RESIDENTIAL REAL ESTATE</b>								
Census Tract Income Level	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
%of AA Owner Occupied	0		62		19		19	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Totals</b>	0	0	73	70	9	6	18	24



<b>COMMERCIAL</b>								
<b>Census Tract Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Businesses</b>	0		68		11		21	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0	0	79	98	13	1	8	1

<b>AGRICULTURAL</b>								
<b>Census Tract Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Businesses<sup>6</sup></b>	0		21		56		23	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0	0	33	16	25	20	42	64

### **Responses to Complaints**

CNB has received no complaints relating to the bank's performance under the CRA.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of illegal discrimination or other illegal credit practices. A review of complaint records and consumer files during this evaluation period provided no indication of disparate treatment.