



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**May 01, 2006**

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

**Ballinger National Bank  
Charter Number 23183**

**900 Hutchings Avenue  
Ballinger, TX 76821**

**Comptroller of the Currency  
San Antonio North  
10101 Reunion Place Boulevard Suite 402  
San Antonio, TX 78216**

**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.**

- Ballinger National Bank's (BNB) 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 averaged 43% during the evaluation period. Such performance is reasonable given the available loan demand in the AA.
- A substantial majority of BNB's loans are within its AA.
- BNB 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 BNB's CRA performance.

## **DESCRIPTION OF INSTITUTION**

BNB is a rural community bank located in Ballinger, Texas, which is approximately 40 miles northeast of San Angelo and 60 miles southwest of Abilene. The bank operates one main office, a drive-through facility, and one automatic teller machine (ATM).

As of March 30, 2006, BNB had total assets of \$38 million with 68% centered in the loan portfolio. The bank's primary loan products include agricultural, residential, and consumer loans. The following chart details a breakdown of BNB's loan portfolio as of March 30, 2006.

<b>Loan Type</b>	<b>Dollar Amount (000's)</b>	<b>% of Total Loans</b>
Real Estate (RE) Construction	192	1
RE Farmland	3,051	21
RE Residential (1-4)	2,368	17
RE Nonfarm Nonresidential	1,210	8
Agricultural Production	2,519	18
Commercial and Industrial	2,019	14
Consumer	2,813	20
Other	185	1
Total	14,357	100

Bank lobby and drive-through services are provided Monday through Friday. In addition to a 24-hour telephone response system, BNB also offers Internet Banking (IB) that allows customers to obtain account balance information and transfer funds between accounts. BNB faces strong competition from other financial institutions located in Ballinger. Based on its financial condition, the local economy, product offerings, competition, and prior performance, BNB has the ability to meet the various credit needs in its community. The bank was rated “Satisfactory” at the last CRA examination on January 28, 2002. No legal impediments or other factors hinder BNB’s ability to provide credit in its AA.

## DESCRIPTION OF RUNNELS COUNTY

BNB has designated Runnels County as its AA. Ballinger is the county seat of Runnels County. Other communities located within the county include Winters, Miles, Rowena, Lowake, Norton, Wingate, and Hatchel. Specific demographic data for this area is listed below.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b>Population</b>	
Number of Families	3,203
Number of Households	4,442
<b>Geographies</b>	
Number of Census Tracts	4
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	25%
% Middle-Income Census Tracts	75%
% Upper-Income Census Tracts	0%
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	\$36,380
2005 HUD-Adjusted MFI	\$42,000
2006 HUD-Adjusted MFI	\$42,000
<b>Economic Indicators</b>	
Unemployment Rate	2.43%
2006 Median Housing Value	\$43,166
% of Households Below Poverty Level	19%

The bank’s AA is comprised of four contiguous census tracts. 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 on the following page.

Based on the 2000 Census data, Runnels County has a population of approximately 11 thousand (M). Three census tracts within the county have been classified as middle-income areas, with one identified as moderate-income. There are 5M housing units in the AA of which 63% are owner-occupied, 19% renter-occupied and 18% vacant. The local economy is based on farming, ranching, small retail businesses, and light manufacturing. The largest non-agricultural employers in the area are Mueller Supply and Buddy’s Plant Plus Corporation, manufactures of metal buildings and plant

fertilizer, respectively. The Ballinger School District and Runnels County are also major employers in Ballinger.

In order to gather more current information on the nature of the community and potential lending opportunities within the AA, we contacted two community leaders during this evaluation. These contacts were the Ballinger City Manager and Ballinger Chamber of Commerce EVP. These contacts stated that BNB and local institutions have been supportive in meeting the credit needs of the community and civic minded. Both contacts further stated that there is need for affordable housing in Ballinger. There are several properties listed for sale; however, low-income families can not afford them. One of the contacts also mentioned that there is a need for rental properties in Ballinger.

## 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

BNB'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 has decreased from 44% at September 30, 2001, to 41% at March 30 2006. The average LTD ratio over the past 18 quarters was 43%, which is below an average 50% during the previous evaluation. This decrease in the LTD is attributed to limited loan demand within the AA, and competitive banking environments. Population growth within the AA has also been relatively stagnant.

During the period from September 2001 through March 2006, the competing banks had LTD ratios ranging from 53% to 73%. It should be noted that Citizens State Bank (CSB) is located in close proximity to San Angelo, which provided CSB with access to a different market with greater lending opportunities. First National Bank of Ballinger (FNB) is a member of a multi-bank holding company, which provides additional lending opportunities amongst member banks. The asset size and LTD ratio for BNB and its three competing banks during this period are listed below.

<b>Institution</b>	<b>Assets as of 03/30/06*</b>	<b>Average LTD Ratio %**</b>
Citizens State Bank, Miles	39,476	73.16
Security State Bank, Wingate	27,424	53.33
First National Bank Ballinger	89,550	65.34
<b><i>Ballinger National Bank</i></b>	<b><i>38,291</i></b>	<b><i>42.74</i></b>

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

\*\**The average LTD ratio is based on the period between September 2004 and March 2006.*

### Lending in Assessment Area

A substantial majority of the bank's loans are made within its AA. We review internal bank reports in order to assess performance for these criteria. The loans sampled within these reports were for a one year time period beginning March 30, 2005. Our analysis determined that 82% of the number and 83% of the dollar amount of all loans were made within the AA.

<b>TOTAL LOANS REVIEWED</b>								
	<b>IN ASSESSMENT AREA</b>				<b>OUT OF ASSESSMENT AREA</b>			
<b>LOAN TYPE</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Residential	25	86	874	90	4	14	102	10
Consumer	423	81	1,541	71	101	19	632	29
Agricultural	86	89	1,654	93	11	11	116	7
Total Reviewed	534	82	4,069	83	116	18	850	17

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

BNB's loan portfolio reflects an excellent distribution among individuals of various income levels and agricultural businesses of different sizes within the AA. We review internal bank reports in order to assess performance for these criteria. The loans sampled within these reports were for a one year time period beginning March 30, 2005. Our analysis determined that BNB lends to all applicants, regardless of income category. Based on the 2000 Census, 44% of AA households are LMI. Our review determined that 69% of consumer loans were made to LMI households. The penetration in residential loans to LMI families was below AA demographics. As mentioned previously in this report, there is a need for affordable housing. The following chart reflects the results of our selected sample of consumer loans originated in BNB's AA.

<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>	24		17		24		35	
	<b>% of Number</b>	<b>% of Amount</b>						
<b>Total</b>	16	4	4	2	12	16	68	78

<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>	29		15		21		35	
	<b>% of Number</b>	<b>% of Amount</b>						
<b>Total</b>	38	20	31	28	16	12	15	40

BNB originates a good number of agricultural production loans. Management continues to support the agricultural community within the AA.

<b>BORROWER DISTRIBUTION OF LOANS TO BUSINESSES - AGRICULTURAL</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	97	3
% of Bank Loans in AA #	97	3
% of Bank Loans in AA \$	91	9

### **Geographic Distribution of Loans**

The entire AA is classified as middle-income, with the exception of a moderate-income census tract located in the town of Winters. The area surrounding the town is classified as middle-income, and is primarily rural and agricultural in nature. A geographical analysis of agricultural loans is irrelevant as they would be located within the middle-income census tracts surrounding Winters. The penetration of consumer and residential loans within the above mentioned moderate-income census tract in Winters is low. BNB's primary customer base is comprised of customers in and around Ballinger. The majority (64%) of BNB's loan portfolio is originated in the Ballinger area, thus marketing efforts target a Ballinger audience. Similar to Ballinger, competition in the small town of Winters is high as there are two other banks located there. The town is also located 16 miles north of Ballinger.

<b>RESIDENTIAL REAL ESTATE</b>								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Owner-Occupied</i>	0		22		78		0	
	<i>% of Number</i>	<i>% of Amount</i>						
<i>Total</i>	-	-	-	-	100	100	-	-

<b>CONSUMER</b>								
<i>Borrower Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
<i>% of AA Households</i>	0		24		76		0	
	<i>% of Number</i>	<i>% of Amount</i>						
<i>Total</i>	-	-	3	2	97	98	-	-

### **Responses to Complaints**

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

## **Fair Lending Review**

An analysis of September 2001 through March 2006 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.