

## **PUBLIC DISCLOSURE**

December 02, 2013

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

Junction National Bank  
Charter Number 14330

701 Main Street  
Junction, TX 76849

Office of the Comptroller of the Currency

San Antonio South Field Office  
10001 Reunion Place, Suite 250  
San Antonio, Texas 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 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**

Junction National Bank (JNB) reflects reasonable lending performance in its efforts to meet community credit needs in its assessment area (AA). Factors that support the rating:

- The average loan-to-deposit (LTD) ratio of 44.3 percent is reasonable given the bank's asset size, competition, lending opportunities and financial condition.
- A majority of loans originated within the AA.
- The distribution of loans reflects reasonable penetration among borrowers of different income levels and businesses of different sizes.

**SCOPE OF EXAMINATION**

We evaluated JNB's lending activities using Small Bank CRA Examination Procedures. The examination scope included two evaluation periods, January 1, 2011 through December 31, 2011 (compared to 2000 Census Data) and January 1, 2012 to September 30, 2013 (compared to 2010 Census Data). We identified consumer loans and commercial loans as the bank's primary loan products for both evaluation periods. We selected a sample of 20 loans for each primary product and each evaluation period, resulting in a total sample of 80 loans (40 loans for each evaluation period).

**DESCRIPTION OF INSTITUTION**

JNB is a full service, intrastate bank headquartered in Junction, Texas. The locally owned bank has total assets of \$55 million. This one branch institution is not part of a holding company. The bank has an on-site ATM machine and drive-up facility. JNB offers traditional loan and deposit products and services. As of September 30, 2013, net loans of \$16.1 million represented 29.5 percent of total assets. A summary of the bank's lending activity is in the following table.

<b>Loan Portfolio Composition As of September 30, 2013</b>		
<b>Loan Category</b>	<b>\$(000s)</b>	<b>%</b>
Residential	2,753	17.03
Commercial (Business)	5,932	36.68
Consumer	2,512	15.53
Agricultural	1,327	8.21
Farmland	3,573	22.09
Other Loans	75	0.46
<b>Total Loans</b>	<b>16,172</b>	<b>100</b>

Source: September 30, 2013 Call Report

There are no legal or financial circumstances that impede your ability to help meet credit needs in the AA. JNB’s previous CRA rating, dated January 28, 2008, was “Outstanding”.

## DESCRIPTION OF ASSESSMENT AREA(S)

JNB designated Kimble County, a non-metropolitan statistical area, as its AA. Demographic data reflected Kimble County had two census tracts at the 2000 Census and at the 2010 Census; however, the census tract income-level designations changed. Kimble County had two middle-income census tracts in the 2010-2011 evaluation periods, and one middle-income and one upper-income census tract in the 2012-2013 evaluation period. Financial competition is limited to one state bank and one branch of a credit union.

Junction is the county seat and is the major employment center of Kimble County. The county also includes the smaller communities of London, Roosevelt, and Telegraph. There are no large industrial employers in the AA. The economy is agricultural based with cattle, sheep, and angora goats. Junction also serves as the shipping and marketing center for Kimble County’s livestock, wool, mohair, pecan, and grain production. Other major employers in the community include the school district, hospital, and nursing home. Tourism is also a principal business due to the proximity of the state park and the nearby hunting leases. Texas Tech University Center, a branch of Texas Tech University, is located in Junction. The center can accommodate approximately 250 students per semester.

We conducted one community contact with a local community organization located in the AA. The contact indicated affordable housing and financial education were primary credit needs within the community.

The following table summarizes demographic data from the 2000 and 2010 Census for Kimble County:

<b>Demographic and Economic Characteristics of Assessment Area</b>		
	<b>2000 Census</b>	<b>2010 Census</b>
<b><i>Population</i></b>		
Number of Families	1,318	1,226
Number of Households	1,879	1,897
Number of Owner Occupied Household Units as a % of total Household Units	45.83%	40.98%
<b><i>Geographies</i></b>		
Number of Census Tracts	2	2
% Low Income Census Tracts	0%	0%
% Moderate Income Census Tracts	0%	0%
% Middle Income Census Tracts	100%	50%

% Upper Income Census Tracts	0%	50%
<b>Median Family Income (MFI)</b>		
Weighted Average MFI	\$36,933	\$57,468
2010 HUD updated Statewide MFI	\$46,500	
2011 HUD updated Statewide MFI	\$48,600	
2012 HUD updated Statewide MFI		\$49,300
2013 HUD updated Statewide MFI		\$50,500
<b>Economic Indicators</b>		
Unemployment Rate	1.74%	0.93%
Weighted Average Median Housing Value	\$78,481	\$137,159
% of Households Below Poverty Level	18.04%	11.91%

Source: U.S. Census Data

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

JNB demonstrated satisfactory performance in meeting the identified credit needs of its AA. The loan sample determined the extent of lending within the AA and distribution of loans by borrower income level.

### Loan-to-Deposit Ratio

The quarterly average LTD ratio is reasonable. JNB had a quarterly average LTD ratio of 44 percent for the 24 quarters between December 2007 and September 2013. The ratio ranged from a low of 32 percent on March 31, 2013, and a high of 56 percent on September 30, 2008. There is only one similarly situated bank in Kimble County; therefore, we selected two other similarly situated banks in the neighboring counties. The following table reflects the average quarterly LTD ratio over the last 24 quarters.

Institution	Total Assets (000's) as of 9/30/2013	Average Quarterly LTD Ratio
<b>Junction National Bank Junction, Texas, Kimble County</b>	\$54,791	44.34
First State Bank Junction, Texas, Kimble County	\$42,005	49.00
Menard National Bank Menard, Texas, Menard County	\$32,319	54.95
First National Bank El Dorado, Texas, Schleicher County	\$64,354	35.35

### Lending in Assessment Area

JNB meets the standards for satisfactory performance with the majority of loans originated inside the AA. The following tables reflect the percentages, by number and dollar volume, of loans that originated inside the AA.

2011 Evaluation Period

In this evaluation period, 80 percent of the number, and 82 percent of the dollar volume of loans originated within the AA.

<b>Lending in Assessment Area January 1, 2011 to December 31, 2011</b>										
<b>2011</b>	<b>Number of Loans</b>					<b>Dollars of Loans</b>				
<b>Loan Type</b>	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	18	90%	2	10%	20	246,073	90.07%	27,142	9.93%	273,215
Commercial Loans	14	70%	6	30%	20	518,786	78.83%	139,335	21.17%	658,121
<b>Totals</b>	<b>32</b>	<b>80%</b>	<b>8</b>	<b>20%</b>	<b>40</b>	<b>764,859</b>	<b>82.12%</b>	<b>166,477</b>	<b>17.88%</b>	<b>931,336</b>

Source: Loan sample

2012-2013 Evaluation Periods

In this evaluation period, 85 percent of the number, and 83 percent of the dollar volume, of loans originated within the AA.

<b>Lending in Assessment Area January 1, 2011 to December 31, 2011</b>										
<b>2012-2013</b>	<b>Number of Loans</b>					<b>Dollars of Loans</b>				
<b>Loan Type</b>	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	17	85%	3	15%	20	125,111	84.19%	23,495	15.81%	148,606
Commercial Loans	17	85%	3	15%	20	584,451	83.27%	117,387	16.73%	701,838
<b>Totals</b>	<b>34</b>	<b>85%</b>	<b>6</b>	<b>15%</b>	<b>40</b>	<b>709,562</b>	<b>83.44%</b>	<b>140,882</b>	<b>16.57%</b>	<b>850,444</b>

Source: Loan sample

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

Overall, JNB meets the standards for satisfactory performance with reasonable distribution of loans to borrowers of different incomes and businesses of different sizes.

2011 Evaluation Period

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 Kimble AA January 1, 2011 to December 31, 2011</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69.84	2.82	27.34	100%
% of Bank Loans in AA by #	90.00	10.00	0.00	100%
% of Bank Loans in AA by \$	74.78	25.22	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

Consumer lending activity reflects reasonable distribution of loans originated to borrowers with low- or moderate-income levels. The percentage of loans originated to low-income borrowers significantly exceeds the percentage of low-income households in the AA. The percentage of loans originated to moderate-income borrowers slightly exceeds the percentage of moderate-income households in the AA.

<b>Borrower Distribution of Consumer Loans in Kimble AA January 1, 2011 to December 31, 2011</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	25.97	45.00	15.65	20.00	19.32	10.00	39.06	25.00

Source: Loan sample; Dunn and Bradstreet data

### 2012-2013 Evaluation Periods

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 Kimble AA January 1, 2012 to September 30, 2013</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	73.37	3.54	23.09	100%
% of Bank Loans in AA by #	90.00	10.00	0.00	100%
% of Bank Loans in AA by \$	74.52	25.48	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

Consumer lending activity reflects reasonable distribution of loans originated to borrowers with low- or moderate-income levels. The percentage of loans originated to low-income borrowers significantly exceeds the percentage of low-income households in the AA. The percentage of loans originated to moderate-income borrowers is slightly below the percentage of moderate-income households in the AA.

<b>Borrower Distribution of Consumer Loans in Kimble AA January 1, 2012 to September 30, 2013</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	20.24	60.00	12.12	10.00	22.67	20.00	44.97	10.00

*Source: Loan Sample; U.S. Census data.*

### **Geographic Distribution of Loans**

The bank's AA is comprised of middle and upper-income census tracts; therefore, we did not conduct meaningful analysis for geographic distribution.

### **Responses to Complaints**

JNB did not receive any consumer complaints related to its CRA performance between January 28, 2008 (date of the previous CRA examination) and December 2, 2013 (date of current examination).

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

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 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 assessment area 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.