



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 10, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Blanco National Bank
Charter Number 8134**

**416-418 4th Street
Blanco, TX 78606**

**Comptroller of the Currency
San Antonio North Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, TX 78216-4605**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The Blanco National Bank's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs.
- A majority of loans are in the bank's assessment area.
- The distribution of loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.

DESCRIPTION OF INSTITUTION

The Blanco National Bank (BNB) is a \$94 million financial institution. The bank is headquartered in Blanco, Texas, and has branches in Fredericksburg, Bulverde, and Wimberley. BNB is locally owned and is not part of a holding company. The bank has four automatic teller machines with one at each of its four locations. BNB is a full-service bank. It offers traditional loan products with a primary focus on consumer and real estate lending. At the prior CRA examination dated November 9, 1998, a Satisfactory rating was assigned. There are no legal or financial factors impeding the bank's ability to help meet the credit needs of the assessment area.

As of December 31, 2002, net loans represent 63% of the bank's total assets. A summary of the loan portfolio is shown below.

Loan Category	\$ (000)	%
Commercial Real Estate Loans	26,300	43%
Consumer Loans	15,501	25%
Residential Real Estate Loans	13,072	21%
Commercial Loans	6,678	11%
Total	61,551	100%

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area includes part or all of five counties. The assessment area includes all of Blanco and Gillespie Counties. The assessment area also includes six census tracts in Hays County, all of Kendall County except block numbering area (BNA) 9705, and all of Comal County except census tract 3102. BNA 9705 in Kendall County represents the city of Boerne

and census tract 3102 in Comal County is the city of New Braunfels. Management has made the decision to compete only in the rural areas of Kendall and Comal Counties. Both BNA 9705 and census tract 3102 are designated as middle-income areas. Comal County is part of the Austin/San Marcos Metropolitan Statistical Area (MSA). Hays County is part of the San Antonio MSA.

The assessment area consists of 11 BNA's and 17 census tracts. Nineteen of the geographies are designated as middle-income and nine are upper-income. There are no low- or moderate-income BNA's or census tracts in the assessment area. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Blanco is located about 40 miles north of San Antonio. Bulverde is located 15 miles north of San Antonio. Bulverde is a bedroom community of San Antonio, with Blanco being a bedroom community of both San Antonio and Austin. A majority of the cities' work force drives to either San Antonio or Austin for employment. Blanco's largest employer is the local school district. Wimberley is approximately half-way between San Antonio and Austin. Fredericksburg is located about 65 miles northwest of San Antonio. Both cities are primarily retirement communities. The economy of Fredericksburg is also dominated by tourism. Its single largest employer is the local hospital.

Two national banks and two state banks are headquartered in the assessment area. BNB also experiences competition from several branches of banks and credit unions headquartered in either San Antonio or other nearby communities.

Of all families living in the assessment area, 16% are low-income, 16% are moderate-income, 21% are middle-income, and 47% are upper-income. The following table provides more information on the assessment area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Persons	119,660
Number of Families	34,001
Number of Households	43,887
<i>Geographies</i>	
Number of Census Tracts/BNA	28
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	68%
% Upper-Income Census Tracts/BNA	32%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$34,576
2002 HUD-Adjusted MFI	\$47,567
<i>Economic Indicators</i>	
Unemployment Rate	2.57%
2002 Median Housing Value	\$77,593
% of Owner-occupied Properties	63.63%
% of Households Below Poverty Level	13.02%

Examiners contacted the Greater Blanco Chamber of Commerce and reviewed a previously completed community contact with the Fredericksburg Chamber of Commerce. Neither contact identified unmet credit needs in the community.

SAMPLING/COMPARISON INFORMATION

Our review focused on the bank's primary product lines: commercial/small business loans, consumer loans, and residential real estate loans. We sampled 30 loans for each primary product line. For the purpose of our evaluation, we combined commercial and commercial real estate loans into one sample. BNB originated all loans in our samples since the previous CRA examination.

In evaluating the bank's loan-to-deposit ratio, we compared BNB to the other four banks that are headquartered in the bank's assessment area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has demonstrated satisfactory performance in meeting the credit needs of the assessment area.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The table that follows shows how BNB's quarterly average loan-to-deposit

ratio compares to the ratios of the other four banks headquartered in the bank's assessment area. Since December 31, 1998, BNB's quarterly average loan-to-deposit ratio is the third highest out of the five area banks.

Institution	Assets as of 12/31/02 (000's)	Average LTD Ratio
Blanco National Bank	93,569	66%
Security State Bank & Trust	469,521	73%
Johnson City Bank	46,791	71%
Cattleman's National Bank	80,667	54%
Pioneer National Bank	71,434	32%

Lending in Assessment Area

A majority of loans are in the bank's assessment area. BNB made 82% of all 90 loans sampled in the assessment area. The bank made 74% of the dollar volume of all loans sampled to borrowers located in the assessment area. The following table shows BNB's record of lending in the assessment area.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	26	87	334	80	4	13	81	20
Residential	25	83	1,351	79	5	17	352	21
Commercial	23	77	1,783	70	7	23	756	30
Total Reviewed	74	82	3,468	74	16	18	1,189	26

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

The distribution of loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. BNB's record of consumer lending to low-income borrowers is strong. Of the 26 consumer loans sampled that were made in the assessment area, the bank made 58% of the number and 50% of the dollar volume to low-income borrowers. Only 19% of the households in the assessment area are designated low-income. The bank's record of lending to moderate-income borrowers is comparable to the demographics of the assessment area. The bank made 12% of the number and 13% of dollar volume of the consumer loans sampled that were made in the assessment area to moderate-income consumers. Fourteen percent of the households living in the assessment area are moderate income. The following table shows BNB's record of consumer lending to all income groups.

CONSUMER LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	19		14		17		50	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1998 to 2003	58	50	12	13	15	12	15	25

The bank's record of residential real estate lending is comparable to the demographics of the assessment area based on the number of loans. BNB made 12% of the residential real estate loans sampled that were made in the assessment area to low-income borrowers. Sixteen percent of families in the assessment area are low-income. The bank also made 20% of the residential real estate loans sampled that were made in the assessment area to moderate-income borrowers. This slightly exceeds the demographics of 16% of the assessment area families being moderate-income. BNB's level of lending is lower when considering the dollar volume of loans. This is reasonable as low- and moderate-income families generally borrow lower dollar amounts than middle- and upper-income families when purchasing homes. The following table reflects the bank's record of residential real estate lending.

RESIDENTIAL REAL ESTATE LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	16		16		21		47	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1998 to 2003	12	5	20	14	32	32	36	49

BNB adequately lends to businesses of different sizes. Of the 23 commercial loans sampled that were made in the assessment area, the bank made 83% of the number of loans to businesses with gross annual revenues less than \$1 million. Of all businesses in the assessment area that reported revenue information, 95% have gross annual revenues less than \$1 million. BNB made 53% of the loans sampled to businesses with gross annual revenues less than \$1 million based on dollar volume. This percentage is skewed by two large commercial loans made to borrowers with gross annual revenues over \$1 million. The following table shows the bank's record of commercial lending.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	95	5
% of Bank Loans in AA #	83	17
% of Bank Loans in AA \$	53	47

Geographic Distribution of Loans

An analysis of the bank's geographic distribution of loans would not be meaningful because there are no low- or moderate-income geographies in the assessment area.

Responses to Complaints

BNB has not received any complaints or public comments regarding its CRA performance during this evaluation period.

Fair Lending Review

An analysis of 1998 through 2003 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. The latest comprehensive fair lending exam was performed in 1998.