



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 26, 2013

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Ballinger National Bank
Charter Number 23183

900 Hutchings Avenue
Ballinger, Texas 76821

Office of the Comptroller of the Currency
San Antonio – North Field Office
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San Antonio, Texas 78216-4133

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 reflects a satisfactory response to community credit and development needs. This conclusion is based on the following results from our review:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- The bank originated a substantial majority of loans within its AA.
- The distribution of loans to borrowers of different income levels reflects reasonable penetration given the performance context of the AA.
- The geographic distribution of loans to the bank's one moderate-income census tract (CT) within the AA is reasonable, given the demographics of the AA.
- There were no complaints concerning BNB's performance under the Community Reinvestment Act (CRA) during the evaluation period.

SCOPE OF EXAMINATION

We evaluated BNB under the Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services.

The lending test for BNB covers the period from July 1, 2009, through August 15, 2013, as this is representative of its lending performance since the previous CRA examination. BNB chose not to participate in the CD test.

BNB's primary loan products are agricultural real estate and agricultural production loans (agricultural) and 1-4 family residential loans. The bank does not report residential mortgage data under the Home Mortgage Disclosure Act (HMDA). To assess BNB's agricultural lending performance, we selected a sample of agricultural loans. To evaluate the BNB's residential lending performance, we selected a sample of 1-4 family residential loans.

As of the 2010 Census, the US Census Bureau revised its approach to collecting most of the population and demographic data used in the CRA Performance Evaluation (PE) process. Data collection requirements and CRA PEs were impacted by 2010 Census data changes beginning January 1, 2012. The data changes required separate analysis for each year of CRA activity evaluated between July 1, 2009 and August 15, 2013. Therefore, for this CRA examination, we analyzed and evaluated loan data against the applicable demographic for the years subject to our review. For each loan product, these data changes required the use of two sets of tables for its one AA - a table reflecting 2000 Census Data demographics for the loans originated in 2009 through 2011 and a table reflecting 2010 Census Data demographics for loans originated in 2012 and through August 15, 2013. Therefore, the lending performance evaluation in the latter portion of this PE includes four tables for the borrower distribution and three tables for the geographic distribution.

DESCRIPTION OF INSTITUTION

BNB is a \$46 million rural community bank located in Ballinger, Texas, which is approximately 40 miles northeast of San Angelo and 60 miles southwest of Abilene. The bank's one office consists of a drive-up motor bank, a walk-in teller lobby, and one automated teller machine (ATM). Primary lending products include agricultural and 1-4 family mortgages.

As of June 30, 2013, net loans comprised 39% of BNB's total assets. A summary of the loan portfolio is noted on Table 1 below.

Table 1		
LOAN PORTFOLIO SUMMARY BY LOAN PRODUCT		
JUNE 30, 2013		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial	4,487	24%
Residential	4,773	26%
Agriculture/Farm	6,816	37%
Consumer	2,247	12%
Other Loans	268	1%
Total	18,611	100%

Source: June 30, 2013, Consolidated Report of Condition

In addition to the drive-up motor bank, lobby, and ATM, BNB provides a telephone banking system available 24 hours a day. BNB also offers online banking where customers can manage their account from a computer.

There are no legal, financial, or other factors impeding the bank's ability to meet the credit needs of its AA. The last CRA performance evaluation was June 15, 2009, and the bank was rated "Satisfactory." There have been no significant changes in BNB's corporate structure or business strategy.

DESCRIPTION OF ASSESSMENT AREA

Runnels County Assessment Area

BNB has designated Runnels County as its one AA. The city of Ballinger is the county seat and major population center in this County. The bank's AA is comprised of four contiguous CT's. For the 2000 Census, three CTs were classified as middle-income areas, and one identified as moderate-income. The three middle-income CTs have been designated as distressed because of their poverty level. The poverty level for the entire AA is 19.34%. This AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies. A further description of the 2000 Census is presented in Table 2 on the following page.

DEMOGRAPHIC INFORMATION FOR RUNNELS COUNTY ASSESSMENT AREA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	4	0%	25%	75%	0%
Population by Geography	11,495	0%	23.66%	76.34%	0%
Owner Occupied Housing Units by Geography	5,400	0%	22.35%	77.65%	0%
Businesses by Geography	1,155	0%	16.10%	83.90%	0%
Farms by Geography	201	0%	4.98%	95.02%	0%
Family Distribution by Income Level	3,203	23.54%	17.3%	24.13%	35.03%
Household Distribution by Income Level	4,442	29.27%	14.93%	20.8%	35.01%
Census Median Family Income (MFI)					
		\$32,906	Median Housing Value		\$43,166
			Households Below Poverty Level		19.34%
HUD – Adjusted MFI: 2009		\$41,183	Unemployment Rate		3.15%
HUD – Adjusted MFI: 2010		\$42,031			

Source: 2011 Business Geodemographic Data; 2000 US Census Data

For the 2010 Census, the bank's AA is comprised of the same four contiguous CTs. However, the demographics changed to one upper-income, two middle-income and one moderate-income CTs. The table below summarizes how the demographics of the CTs in BNB's AA changed.

SUMMARY OF CENSUS TRACT CHANGES		
Census Tract	2000 Census	2010 Census
9501	Middle	Upper
9502	Moderate	Middle
9505	Middle	Middle
9506	Middle	Moderate

For 2012 and 2013, the two middle-income CTs have been designated as distressed because of their poverty level. The US Census Bureau, Bureau of Labor Statistics and the US Department of Agriculture make this designation. For this time period, the poverty level for the entire AA was 21.20%. A further description of the 2010 Census is presented in Table 4 on the following page.

DEMOGRAPHIC INFORMATION FOR RUNNELS COUNTY ASSESSMENT AREA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	4	0%	25%	50%	25%
Population by Geography	10,501	0%	45.73%	41.07%	13.20%
Owner Occupied Housing Units by Geography	5,330	0%	41.66%	42.50%	15.84%
Businesses by Geography	910	0%	52.42%	31.10%	16.48%
Farms by Geography	243	0%	25.93%	40.74%	33.33%
Family Distribution by Income Level	2,903	27.63%	17.71%	16.43%	38.24%
Household Distribution by Income Level	3,953	27.14%	16.52%	18.67%	37.67%
Census Median Family Income (MFI)					
		\$44,783	Median Housing Value		\$67,323
HUD – Adjusted MFI: 2011		\$45,308	Households Below Poverty Level		21.20%
HUD – Adjusted MFI: 2012		\$48,251	Unemployment Rate		2.12%
HUD – Adjusted MFI: 2013		\$44,962			

Source: 2013 Business Geodemographic Data; 2010 US Census Data

The Runnels County economy is based on farming, ranching, small retail businesses, and light manufacturing. The largest employers in the area are Mueller Supply, a metal manufacturer, and Buddy's Plant Plus Corporation, a fertilizer manufacturer. The school district and Runnels County are also major employers.

In order to gather more information on the nature of the community and potential lending opportunities in the AA, we performed a community contact in conjunction with this PE. The contact provides education assistance through an agricultural extension program. The contact stated that Runnels County has a good variety of financial institutions relative to the population. He expressed no concerns regarding the availability of credit or basic financial products for Runnels County residents. He indicated that financial institutions do a great job supporting the community and local non-profits. The contact noted that financial education for residents in Runnels County is an area that could be improved. He further stated that the general population would benefit from increased awareness of credit options available from local financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

We evaluated the institution using the five criteria established for small banks. The criterion includes individual assessments of the average level of total loans as a percentage of total deposits, the level of loans originated within the AA, the reasonableness of loan dispersion to individuals of different income levels and geographies, and management's response to complaints received. Additionally, we reviewed for any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs. ***Based on our analysis and recognition of the demographic characteristics of the one AA, we conclude that BNB's level of lending performance is satisfactory in meeting the credit needs of its community, including LMI individuals, consistent with its resources and capabilities.***

Loan-to-Deposit Ratio

BNB's LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's net LTD ratio averaged 54% over the last 16 quarters since the last CRA examination, with a quarterly low of 44% and a quarterly high of 60%. The average LTD has remained stable; it averaged 53% at the last examination. There are three other financial institutions based in Runnels County. Their LTD ratios range from 46% to 79% and BNB ranks third. Asset size and LTD comparisons between similar institutions are presented in Table 5 below.

Table 5		
INSTITUTION	ASSETS AS OF 03/31/2013 (000s)	AVERAGE QUARTERLY LTD RATIO
Ballinger National Bank	\$45,052	54.04%
Citizens State Bank, Miles	\$82,830	79.04%
Security State Bank, Winters	\$41,165	45.57%
First National Bank of Ballinger	\$134,733	59.74%

Source: March 31, 2013, Consolidated Report of Condition

Lending Performance

BNB originates a substantial majority of loans within its AA, making 89% of a total sample of 90 loans within the AA. The bank made 92% of the dollar volume of all loans sampled to borrowers located in the AA. Table 6 below details BNB's record of lending in the AA.

Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE (2009 to 2011)	20	83	4	17	24	\$729	76	234	24	\$964
Residential RE (2012 & 2013)	20	95	1	5	21	\$1,046	96	\$42	4	\$1,089
Agricultural (2009 to 2011)	20	91	2	9	22	\$773	97	\$21	3	\$794
Agricultural (2012 & 2013)	20	87	3	13	23	\$1,243	98	\$20	2	\$1,263
Totals	80	88.88	10	11.12	90	\$3,791	92.28	\$317	7.72	\$4,108

Source: Data reported under Loan Samples

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

BNB's loan activity reflects a reasonable distribution of residential loans among individuals of various income levels and excellent distribution of agricultural loans to businesses of different sizes in the AA.

Residential Loans

Based upon our review of 40 residential mortgage loans, the bank's level of residential real estate lending to LMI families is reasonable.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential Loans	23.54	20	17.30	15	24.13	20	35.03	45

Source: Residential loan sample and 2000 US Census data

As shown in the table above, and according to the 2000 US Census data, almost 24% of AA families are low-income and 17% are moderate-income. Comparatively, in 2009-2011, BNB originated 20% of its residential real estate loans to low-income and 15% to moderate-income borrowers. Such performance represents excellent penetration to LMI families.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential Loans	27.63	10	17.71	5	16.43	45	38.24	40

Source: Residential loan sample and 2010 US Census data

As shown in Table 8 above, and according to 2010 US Census data, 28% of AA families are low-income; 18% are moderate income. Comparatively, in 2012 and through August 15, 2013, BNB originated only 10% of its residential real estate loans to low-income borrowers and 5% to moderate-income borrowers. ***This data reveals poor penetration to LMI families.*** Contributing to this low performance is that BNB does not originate government-guaranteed or supported residential mortgage loans due to the low down payment requirement. Bank policy requires 15% down payment on such loans.

Business (Agricultural-Related Loans)

BNB's distribution of loans to small farms and ranches (annual gross revenue of less than \$1 million) is excellent considering AA demographics for both the 2000 and 2010 Census periods. We reviewed 40 agricultural loans in BNB's AA to determine the lending distribution among businesses of different sizes for 2009 through 2011, and a second sample for 2012 through August 15, 2013.

Table 9A				
BORROWER DISTRIBUTION OF LOANS TO FARMS IN RUNNELS COUNTY ASSESSMENT AREA				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unavailable/ Unknown</i>	<i>Total</i>
% of AA Businesses	97.51%	1.99%	0.50%	100%
% of Bank Loans in AA by #	95	5	0	100%
% of Bank Loans in AA by \$	87	13	0	100%

Source: 2009-2011 Loan sample; 2011 Dunn and Bradstreet data

According to 2011 Dunn and Bradstreet data, nearly 985 or 98% of farms in the AA have revenues of less than \$1 million. Based on our sample, as noted in Table 9A above, 95% of the number of loans originated by BNB in the AA between July 2009 and year-end 2011, had revenues below \$1 million. By dollar amount, the percentage of loans is slightly lower at 87%; however, this is reasonable as larger businesses inherently qualify for and require larger loan amounts.

Table 9B				
BORROWER DISTRIBUTION OF LOANS TO FARMS IN RUNNELS COUNTY ASSESSMENT AREA				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unavailable/ Unknown</i>	<i>Total</i>
% of AA Businesses	97.53%	1.65%	0.82%	100%
% of Bank Loans in AA by #	90	10	0%	100%
% of Bank Loans in AA by \$	90.36%	9.64%	0%	100%

Source: 2012-2013 Loan sample; 2013 Dunn and Bradstreet data

According to 2013 Dunn and Bradstreet data, 98% of farms in the AA, as noted in Table 9B above, have revenues of less than \$1 million. Based on our sample, also noted in Table 9B above, 90% of the number and dollar amount of loans originated by BNB in the AA between July 2012 through August 2013 had revenues below \$1 million.

Geographic Distribution of Loans

BNB's geographic distribution of loans reflects a reasonable distribution of loans throughout the AA when compared to area demographics. We based our analysis on a sample of BNB's residential and agricultural loans originated during this reporting period. We considered the results of the loan sample with comparisons to both the 2000 and 2010 Census data in arriving at this conclusion.

Residential Loans

Runnels County has only one moderate-income CT while the remainder are either middle- or upper-income. Using 2000 Census data, there is poor residential loan dispersion in the one moderate-income CT. However, BNB's performance in the moderate-income CT, using 2010 Census data, is excellent. ***As such, the overall geographic distribution of residential loans is reasonable in light of the performance context and the unique features of the one moderate-income CT in BNB's AA.***

Table 10A shows that the geographic distribution of residential loans located in the one moderate-income CT is significantly below area demographics based on the 2000 Census data. However, the CT classified as moderate-income at that time was the city of Winters, Texas, and BNB does not have a branch office in this city. The vast majority of loan requirements in this CT were met by a state bank headquartered in Winters and branches of other national banks with offices also in this city.

Table 10B shows that the geographic distribution of residential loans located in the one moderate-income CT is significantly higher than area demographics based on the 2010 Census data. During the 2010 Census period, the moderate-income CT was changed from Winters to include the City of Ballinger. BNB's improvement in residential loans made in this one moderate-income CT is not surprising given that BNA's only office is headquartered in this city.

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Residential Loans	0.00	0	22.35	5	77.65	95	0.00	0

Source: Loan sample; 2000 US Census data

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Residential Loans	0.00	0	41.66	85	42.50	15	15.84	0

Source: Loan sample; 2010 US Census data

Business (Agricultural Loans)

A table for geographic distribution of agricultural loans using 2000 Census data is not presented as it was not meaningful. This is because the moderate-income CT is very small and includes the inside of the city boundaries of Winters. Typically, agricultural loans would be made outside the city limits. Census data indicates that less than 5% of agricultural loans were located within the one moderate-income CT.

Based on the 2010 Census data, the CT that includes the city of Ballinger was reclassified from a middle-income CT to moderate. Table 10C below shows that the geographic distribution of agricultural loans in this moderate-income CT is considered excellent.

Table 10C								
GEOGRAPHIC DISTRIBUTION OF LOANS TO FARMS IN RUNNELS COUNTY ASSESSMENT AREA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
Loan Type	% of AA Businesses/ Farms	% of # of Loans	% of AA Businesses/ Farms	% of # of Loans	% of AA Businesses/ Farms	% of # of Loans	% of AA Businesses/ Farms	% of # of Loans
Agricultural loans	0.00	0	25.93	40	40.74	30	33.33	30

Source: Loan sample; Dunn and Bradstreet data

Responses to Complaints

BNB has not received any CRA complaints during this evaluation period.

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.