



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 28, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Junction National Bank
Charter Number 14330

701 Main Street
Junction, TX 76849-4607

Office of the Comptroller of the Currency

SAN ANTONIO SOUTH
10001 Reunion Place, Suite 250
San Antonio, TX 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 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 Outstanding.

Junction National Bank (JNB) reflects excellent lending performance in its efforts to meet the credit needs of its community, including low- and moderate-income individuals and businesses of different sizes within its assessment area (AA). Factors that support the overall rating include:

- The average loan-to-deposit ratio of 51.1 percent is more than reasonable given the bank's asset size, competition, lending opportunities and financial condition. The ratio exceeds the average loan-to-deposit ratio of similarly situated financial institutions in and adjacent to the AA.
- A substantial majority of loans originated within the AA. Our sample reflected that 90 percent of the number and 91 percent of the dollar volume originated within the AA.
- The distribution of loans reflects strong penetration among families and households of different income levels and businesses of different sizes.

SCOPE OF EXAMINATION

The scope of the CRA examination covered the time period since the date of the prior Performance Evaluation (PE) of August 11, 2003, to January 28, 2008. Our review sample focused on JNB's primary loan products: residential, consumer, and business loans that include commercial, commercial real estate and agricultural purposes. We sampled 20 loans from each of the above categories.

In evaluating the bank's loan-to-deposit ratio, we used a comparison of similarly situated banks. These banks were selected for analysis based on their proximity and similar size and structure.

DESCRIPTION OF INSTITUTION

JNB began operations in 1935. They are a locally owned community bank with total assets of \$40 million. The bank is located in downtown Junction, Texas, and has no branches. JNB is not part of a holding company. The bank has two automatic teller machines (ATMs) with one on bank premises and one offsite at a local food mart. They also offer online banking over the Internet. JNB is a full service bank that offers traditional loan and deposit products and services. As of September 30, 2007, net loans of \$17.4 million represented 43.5 percent of total assets. A summary of the bank's lending activity is reflected in the following table.

Loan Category	\$ (000)	%
Construction/Land Development	23	.13
Commercial/Real Estate	1,645	9.48
Commercial/Industrial	3,663	21.11
Farmland	2,011	11.59
Agricultural	3,059	17.63
<i>Subtotal Business Loans</i>	<i>10,401</i>	<i>59.94</i>
Residential Real Estate	3,776	21.76
Consumer	3,176	18.30
Total Loans	17,353	100.00

Source: September 30, 2007 Consolidated Report of Condition

There are no legal or financial circumstances that impede the bank's ability to help meet the credit needs in its AA. JNB's previous CRA rating, dated August 11, 2003, was satisfactory.

DESCRIPTION OF ASSESSMENT AREA(S)

JNB has selected Kimble County as its AA. Kimble County, located in the south central Texas hill country, consists of two middle-income census tracts. Junction is the county seat and is located approximately 120 miles northwest of San Antonio and 150 miles west of Austin. The San Angelo MSA/MD is 105 miles to the northwest. The county also includes the smaller communities of London, Roosevelt and Telegraph. Competition in the AA includes a state bank and a branch of a credit union. According to the FDIC deposit market share report dated June 30, 2007, JNB has a market share of 53.33 percent.

The city of Junction is the major employment center of Kimble County. There are no large industrial employers in the AA. The economy is agricultural based with cattle, sheep, angora and Spanish goats as the primary products. Junction also serves as the shipping and marketing center for Kimble County's livestock, wool, mohair, pecan, and grain production. Tourism also contributes to the economy due to the proximity of a state park and hunters during deer season. Other employers in the community include the school district, hospital and nursing home. Texas Tech University Center, a branch of Texas Tech University, is located in Junction. The center can accommodate 250 students and offers both graduate and undergraduate courses.

Of the families living in the AA, 22 percent are low-income, 17 percent are moderate-income, 21 percent are middle-income and 40 percent are upper-income. The following table details the demographic information of Kimble County:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Population of Assessment Area	4,468
Number of Families	1,318
Number of Households	1,878
<i>Geographies</i>	
Number of Census Tracts	2
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	36,933
2007 HUD-Adjusted MFI	43,100
<i>Economic Indicators</i>	
Unemployment Rate-Assessment Area	1.37%
2007 Median Housing Value	78,481
% Households Below Poverty Level	18.04%
% Owner Occupied Housing	62.28%

Source: U. S. Department of Commerce's Bureau of Census.

Two community contacts were interviewed who mentioned a need for affordable housing and financial education. Both contacts spoke very positive of community support provided by the local banks.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

JNB demonstrated strong performance in meeting the identified credit needs of its AA. Our loan sample was used to determine the extent of lending within the AA and distribution of loans by borrower income level. We based our findings for the following factors on that sample.

Loan-to-Deposit Ratio

JNB's net loan-to-deposit (LTD) ratio is very reasonable and meets the standard for satisfactory performance given the bank's size and financial condition, the credit needs of the AA, and the competitive local banking environment. As shown in the following table, the average quarterly LTD ratio over the past 16 quarters compares favorably to the averages reported by other similarly situated financial institutions.

Institution	County	Total Assets as of 9/30/07 (000s)	Average LTD Ratio
<i>Junction National Bank Junction, TX</i>	<i>Kimble</i>	<i>39,855</i>	<i>51.1</i>
First State Bank Junction, TX	Kimble	36,380	45.2
Menard National Bank Menard, TX	Menard	31,392	44.9
First National Bank Eldorado, TX	Schleicher	47,024	44.8

Source: Quarterly Call Report information.

Lending in Assessment Area

JNB exceeds the standards for satisfactory performance with a substantial majority of loans originating in the AA. Of the 60 loans sampled, 90 percent of the number and 91 percent of the dollar volume were to borrowers located in the AA. The following table illustrates the distribution of the bank's lending inside and outside the Kimble County AA.

Total Loans Reviewed										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	19	95.00%	1	5.00%	20	532	89.86%	60	10.14%	592
Consumer	18	90.00%	2	10.00%	20	72	92.33%	6	7.67%	78
Business	17	85.00%	3	15.00%	20	429	92.26%	36	7.74%	465
Totals	54	90.00%	6	10.00%	60	1,033	91.01%	102	8.99%	1,135

Source: Loan sample; selected at random from bank records.

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

JNB demonstrates strong distribution of loans to borrowers of different income levels and businesses of different sizes. Based on our sample of loans originated within the AA, the bank's overall performance exceeds the standards for satisfactory performance. The following narratives and tables document our findings.

Our analysis of residential lending activity reflected percentages lower than those reported in the demographic data for low-income families. Households below the poverty level represent 18 percent of the total households in the AA. The level of income based on the 2007 HUD-adjusted family income for this household segment is \$21,500. The low level could inhibit potential borrowers from qualifying for residential loans, since the 2007 median housing value is \$78,481. In addition, it would be expected that the dollar percentage would be lower, as low-income individuals would borrow smaller amounts. Residential lending to moderate-income borrowers substantially exceeds the demographic data for moderate-income families.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families	22.00%		17.00%		20.86%		40.14%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	10.52%	8.83%	31.58%	20.58%	31.58%	37.83%	26.32%	32.76%

Source: U. S. Census data; loan sample.

Consumer lending activity reflected a strong distribution of loans to borrowers with low- and moderate-income levels. As shown in the following table, 67 percent of the number of loans in our sample originated to borrowers with low- and moderate-income levels. The percentage compares favorably to the 42 percent reported in demographic data for low- and moderate-income households.

Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Households	25.97%		15.65%		19.32%		39.06%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	38.88%	14.55%	27.78%	41.00%	27.78%	28.17%	5.56%	16.28%

Source: U.S. Census data; loan sample

JNB demonstrated a very good distribution of small loans to businesses, including those for agricultural purposes. In making the comparison, we noted that 29 percent of businesses in the AA did not report revenue information. However, the businesses that do not report revenue generally meet the small business definition of annual revenue less than \$1 million. Our sample also reflected that 24 percent of the loans were in amounts less than \$25 thousand. The following table compares the loan sample to the percentage of businesses in the AA.

Borrower Distribution of Loans to Businesses in AA		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	66.33%	4.27%
% of Bank Loans in AA #	94.12%	5.88%
% of Bank Loans in AA \$	88.34%	11.66%

Source: Dunn and Bradstreet data; loan sample. *29.40% of businesses did not report revenue data.

In addition to the loan sample as indicated in the preceding tables, the bank annually conducts an analysis of loans made to borrowers of different income levels. The review of that analysis indicates that during the years 2004 through 2007, total loan originations by number were distributed as follows:

Low	Moderate	Middle	Upper
42.81%	20.95%	16.15%	20.09%

Geographic Distribution of Loans

Because the bank’s AA is comprised solely of middle-income tracts, no meaningful analysis could be conducted for geographic distribution.

Responses to Complaints

There have been no consumer complaints during this evaluation period regarding the bank’s CRA performance.

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.