



SMALL BANK

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

PUBLIC DISCLOSURE

July 13, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Cattleman's National Bank
Charter Number 21015**

**Southwest Center
Round Mountain, Texas 78663**

**Comptroller of the Currency
San Antonio – North Field Office
10101 Reunion Place Boulevard, Suite 402
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 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.”

Cattleman’s National Bank’s (CNB) lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The overall distribution of loans to individuals of varying income levels and businesses of different sizes is reasonable. CNB has a strong record of consumer lending to low- and moderate-income individuals.
- CNB originates a significant majority of loans within its assessment area (AA).
- The bank’s quarterly loan-to-deposit (LTD) ratio is reasonable given CNB’s size, financial condition, and AA credit needs.
- An analysis of the bank’s geographic distribution of loans would not be meaningful because of the lack of low- and moderate-income census tracts within the AA.
- There were no complaints concerning CNB’s Community Reinvestment Act (CRA) performance during this evaluation period.

DESCRIPTION OF INSTITUTION

CNB is a \$75 million financial institution locally owned by several shareholders. Headquartered in Round Mountain, Texas, the bank also has branches in Stonewall, Marble Falls, Blanco, Dripping Springs, and Johnson City. CNB has three automatic teller machines (ATM) with one each at the Dripping Springs, Marble Falls, and Stonewall locations. As a full-service bank, CNB offers traditional loan products with a primary focus on commercial, consumer, and real estate lending. Since our prior evaluation, the bank has begun offering 24-hour Internet banking, including bill pay.

As of March 31, 2007, net loans represent 33% of the bank’s total assets. Based on its financial condition, resources, the local economy, product offerings, and competition, CNB has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder its ability to provide credit in its AA. CNB received an “Outstanding” rating at its previous CRA examination conducted in April 2002. Since the prior evaluation, there have been no complaints relating to CNB’s CRA performance. The following table details the bank’s loan portfolio composition as of March 31, 2007.

LOAN PORTFOLIO COMPOSITION		
Loan Category	\$(000)	%
Commercial Real Estate Loans	11,580	42%
Agricultural Loans	5,416	20%
Residential Real Estate Loans	4,353	16%
Commercial Loans	4,147	15%
Consumer Loans	1,958	7%
Total	27,454	100%

Source: Institution Consolidated Reports of Condition as of 03/31/2007.

DESCRIPTION OF ASSESSMENT AREA

CNB’s AA includes part or all of five counties. The area includes all of Blanco County and parts of Burnet, Gillespie, and Llano Counties, which are not part of a Metropolitan Statistical Area (MSA). The AA also includes four census tracts in Hays County, which are part of the Austin/Round Rock MSA.

In total, the AA includes 20 contiguous census tracts delineating CNB’s primary trade area and encompasses its headquarters and all five branch locations. Twelve of these are upper-income and eight are middle-income. None of the census tracts are designated low- or moderate-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Description of Assessment Area (Non-MSA)

CNB’s main office and four branches are located in the non-MSA portion of the AA. The bank keeps its headquarters in Round Mountain, which is in Blanco County. The Blanco and Johnson City branches are also located in Blanco County. The Stonewall branch is located in Gillespie County and the Marble Falls location is in Burnet County. These counties are not included in an MSA as defined by the U.S. Census Bureau. For the purpose of this evaluation, these counties are evaluated collectively and referred to as the non-MSA portion of the AA. Round Mountain has a population of approximately 110 and is located approximately 60 miles north of San Antonio along U.S. Highway 281 North. Round Mountain is a small rural community with no major employer or industry.

The demographics of the combined counties show 13% of the total families are low-income, 15% are moderate-income, 21% are middle-income, and 51% are upper-income. About 10% of households are below the poverty level. The following table provides more information on the non-MSA portion of the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA (NON-MSA)	
<i>Population</i>	
Number of Persons	67,226
Number of Families	19,407
Number of Households	27,106
<i>Geographies</i>	
Number of Census Tracts	16
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	37.50
% Upper-Income Census Tracts	62.50
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$45,162
2007 HUD-Adjusted MFI	\$43,100
<i>Economic Indicators</i>	
Unemployment Rate	1.47
2007 Median Housing Value	\$99,164
% of Owner-occupied Properties	62.66
% of Households Below Poverty Level	10.29

Source: US Census Data

In order to gather information that is more current on the nature of the community and potential lending opportunities in the area, we reviewed a contact made with the Blanco City Council. The group identified

no unmet credit needs.

Description of Austin-Round Rock MSA

CNB has one branch located in the Austin-Round Rock MSA. The bank has designated four census tracts in the western part of Hays County as part of its AA. For the purpose of this evaluation, these census tracts are referred to as the MSA portion of the AA. Dripping Springs is located in Hays County and is a bedroom community to Austin. The town is located approximately 15 miles west of Austin. The local school district is the area's largest employer.

The demographics of the MSA portion of the AA show 10% of the total families are low-income, 16% are moderate-income, 24% are middle-income, and 50% are upper-income. Less than 4% of households are below the poverty level. The following table provides more information on the MSA portion of the AA.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA (MSA)	
<i>Population</i>	
Number of Persons	35,182
Number of Families	10,206
Number of Households	12,660
<i>Geographies</i>	
Number of Census Tracts	4
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	0
% Middle-Income Census Tracts	50.00
% Upper-Income Census Tracts	50.00
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$64,535
2002 HUD-Adjusted MFI	\$69,600
<i>Economic Indicators</i>	
Unemployment Rate	0.87
2007 Median Housing Value	\$158,063
% of Owner-occupied Properties	80.84
% of Households Below Poverty Level	3.69

Source: US Census Data

SAMPLE

Our review focused on the primary business lines. For the purpose of evaluating CNB's CRA performance, we consolidated commercial and commercial real estate loans into one category. We also reviewed residential real estate and consumer lending. While consumer lending is a smaller portion of the loan portfolio based on dollar volume, the number of loans is higher than the other categories. The following table summarizes the loan samples we used. For the purpose of evaluating the bank's record of lending to borrowers of different income levels, all loans made outside of the AA were eliminated.

Sampling Information	Non-MSA	Austin – Round Rock MSA	Total Sample
Commercial	36	8	44
Residential Real Estate	25	36	61
Consumer	22	15	37
Total Sample	83	59	142

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

CNB’s level of lending performance in meeting the credit needs of the AA meets the standards for satisfactory performance. We evaluate the institution using five criteria established for small banks. The criterion includes individual assessments of the average level of total loans as a fraction of total deposits, the level of loans originated within the AA, the reasonableness of loan dispersion to individuals and businesses of different income levels and geographies, and management’s response to complaints received. Additionally, we review any evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

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

CNB’s level of lending to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance. The bank’s level of lending to lending to small businesses is in line with the demographics of the AA. CNB has a strong record of consumer lending to low- and moderate-income individuals.

Record of Lending in the Non-MSA Portion of the Assessment Area

CNB’s level of lending to small businesses in the non-MSA portion of the AA is reasonable, having made 85% of the commercial loans samples to businesses with gross annual revenues of less than \$1 million. This compares to the 93% of all businesses in this part of the AA that have revenues less than \$1 million.

BORROWER DISTRIBUTION OF LOANS TO SMALL BUSINESSES (NON-MSA)		
<i>Business Revenues</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>
% of AA Businesses	93	7
% of Bank Loans in AA #	85	15
% of Bank Loans in AA \$	53	47

Source: US Census Data; Bank Records

CNB has a strong record of consumer lending to low- and moderate-income individuals. The bank made 25% and 45%, respectively, of the consumer loans sampled in the non-MSA part of the AA to low- and moderate-income borrowers. This compares to 17% of all households in this portion of the AA that are low-income and 14% that are moderate-income.

BORROWER DISTRIBUTION OF CONSUMER LOANS (NON-MSA)								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Households	17		14		18		51	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002-2007	25	12	45	62	5	6	25	20

Source: US Census Data; Bank Records. A household is defined as "All persons occupying a housing unit."

CNB also has a reasonable record of residential lending to low- and moderate-income families. Of the residential real estate loans sampled, the bank made 5% to low-income families. This is slightly lower than the percentage of all families that are low-income (13%); however, the bank made 15% of the loan sampled to moderate-income families. This is in line with the percentage of families in the non-MSA AA that are moderate-income.

BORROWER DISTRIBUTION OF 1-4 FAMILY REAL ESTATE LOANS (NON-MSA)								
	Low		Moderate		Middle		Upper	
% of AA Families	13		15		21		51	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002-2007	5	2	15	6	30	20	50	72

Source: US Census Data; Bank Records. Families are defined as "Householders related by birth, marriage, or adoption."

Record of Lending in the MSA Portion of the Assessment Area

CNB's level of commercial lending to small businesses is reasonable when compared to the level of small businesses in the MSA portion of the AA. Of the loans sampled in this part of the AA, the bank made 83% to businesses with gross annual revenues of less than \$1 million. This percentage is lower but not out of line with the 96% of businesses in the AA that have similar annual revenues.

BORROWER DISTRIBUTION OF LOANS TO SMALL BUSINESSES (MSA)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	96	4
% of Bank Loans in AA #	83	17
% of Bank Loans in AA \$	50	50

Source: US Census Data; Bank Records

Similar to the non-MSA portion of the AA, CNB has a strong record of lending to low- and moderate-income households, having made 31% of the consumer loans sampled to low-income households. Only 12% of the households in the MSA portion of the AA are low-income. CNB also made 15% of the loans sampled to moderate-income households, which is in line with the 12% of moderate-income households in the AA.

BORROWER DISTRIBUTION OF CONSUMER LOANS (MSA)								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Households	12		12		20		56	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002-2007	31	15	15	7	0	0	54	78

Source: US Census Data; Bank Records. A household is defined as "All persons occupying a housing unit."

CNB has a strong record of residential lending in the MSA portion of the AA. Ten percent of the families in the AA are low-income; an additional 16% are moderate-income. The bank made 21% and 29% of the residential loans sampled to low- and moderate-income families, respectively.

BORROWER DISTRIBUTION OF 1-4 FAMILY REAL ESTATE LOANS (MSA)								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families	10		16		24		50	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002-2007	21	8	29	39	18	12	32	41

Source: US Census Data; Bank Records. Families are defined as "Households related by birth, marriage, or adoption."

Lending in Assessment Area

CNB originates a majority of loans in its AA, including a substantial majority in the MSA portion. In the non-MSA portion of the AA, CNB made 72% of a total sample of 83 loans. In the MSA portion, the bank made 90% of the number of loans sampled to borrowers located in the AA. We sampled 59 loans in the MSA portion. The following tables show CNB's record of lending in the AA.

LENDING IN ASSESSMENT AREA (NON-MSA)										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	20	56	16	44	36	1,523	60	1,035	40	2,558
Commercial	20	80	5	20	25	3,057	76	958	24	4,015
Consumer	20	91	2	9	22	188	79	51	21	239
Totals	60	72	23	28	83	4,768	70	2,044	30	6,812

Source: Sample of loans.

LENDING IN ASSESSMENT AREA (MSA)										
<i>Loan Type</i>	<i>Number of Loans</i>					<i>Dollars of Loans (000's)</i>				
	<i>Inside</i>		<i>Outside</i>		<i>Total</i>	<i>Inside</i>		<i>Outside</i>		<i>Total</i>
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	
Residential	34	94	2	6	36	3,966	97	109	3	4,075
Commercial	6	75	2	25	8	279	80	69	20	348
Consumer	13	87	2	13	15	226	94	14	6	240
Totals	53	90	6	10	59	4,471	96	192	4	4,663

Source: HMDA data for residential loans, sample of loans for commercial and consumer loans.

Loan-to-Deposit Ratio

CNB's LTD ratio is reasonable given its asset size, financial condition, and lending opportunities available in the AA. CNB's average LTD ratio is the lowest of any bank headquartered within the AA; however, it is not out of line with some of the other institutions.

INSTITUTION	ASSETS AS OF 3/31/07 (000'S)	AVERAGE LTD RATIO %
Cattleman's National Bank	74,700	46.16
Arrowhead Bank	102,035	50.32
Llano National Bank	86,278	62.73
Johnson City Bank	68,739	80.05
Blanco National Bank	144,168	81.40
Security State Bank and Trust	558,517	85.16
American Bank of Texas	661,759	85.23

Source: Institution Consolidated Reports of Condition

Geographic Distribution of Loans

An analysis of the bank's geographic distribution of loans would not be meaningful. There are no low- or moderate-income census tracts in the AA.

Responses to Complaints

CNB has not received any complaints or public comments regarding its CRA performance 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.