



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 28, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Ballinger National Bank
Charter Number 23183**

**900 Hutchings Avenue
Ballinger, TX 76821**

**Comptroller of the Currency
Austin Field Office
8310 Capital Of Texas Highway North Suite 250
Austin, TX 78731**

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.

- Ballinger National Bank’s (BNB) lending performance is satisfactory given its size, financial condition, and known credit needs in its assessment area (AA).
- The bank’s loan-to-deposit (LTD) ratio is satisfactory and averaged 50% during the evaluation period. Such performance is reasonable given the available loan demand in the AA.
- A satisfactory majority of BNB’s loans are within its AA.
- BNB has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- There have been no complaints with respect to BNB’s CRA performance.

DESCRIPTION OF INSTITUTION

BNB is a rural community bank located in Ballinger, Texas, which is approximately 40 miles northeast of San Angelo and 60 miles southwest of Abilene. The bank operates one main office, a drive-through facility, and two automatic teller machines (ATMs). Both ATMs are in Ballinger; one is located at the main office, and the other is in a convenience store. A local family maintains primary ownership of the bank.

As of September 30, 2001, BNB had total assets of approximately 34,284 thousand (M) with 39% centered in the loan portfolio. The bank’s primary loan products include agricultural, commercial, and consumer loans. The following chart details a breakdown of BNB’s loan portfolio as of September 30, 2001.

Loan Type	Dollar Amount (000's)	% of Total Loans
Real Estate (RE) Construction	74	0.55
RE Farmland	1,621	12.13
RE Residential (1-4)	1,527	11.42
RE Nonfarm Nonresidential	1,343	10.05
Agricultural Production	3,173	23.73
Commercial and Industrial	3,276	24.50
Consumer	2,267	16.96
Other	88	0.66
Total	13,369	100.0

Bank lobby and drive-through services are provided Monday through Friday. BNB has a 24-hour telephone response system that allows customers to obtain account balance information and transfer funds between accounts. BNB faces strong competition from other financial institutions located in Ballinger. Based on its financial condition, the local economy, product offerings, competition, and prior performance, BNB has the ability to meet the various credit needs in its community. The bank was rated “Satisfactory” at the last CRA examination on December 11, 1997. No legal impediments or other factors hinder BNB’s ability to provide credit in its AA.

DESCRIPTION OF RUNNELS COUNTY

BNB has designated Runnels County as its AA. Ballinger is the county seat of Runnels County. Other communities located within the county include Winters, Rowena, Lowake, Norton, Wingate, and Hatchel. Specific demographic data for this area is listed below.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	3,170
Number of Households	4,348
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$23,938
2000 HUD-Adjusted MFI	\$34,700
2001 HUD-Adjusted MFI	\$35,800
<i>Economic Indicators</i>	
Unemployment Rate	2.57%
2001 Median Housing Value	\$31,713
% of Households Below Poverty Level	19.99%

The bank’s AA is comprised of five contiguous block-numbering areas (BNAs). This area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. A further description of the AA is presented on the following page.

Based on the 1990 Census data, Runnels County has a population of approximately 11M. All five BNAs within the county have been classified as middle-income areas. There are 5M housing units in the AA of which 61% are owner-occupied, 20% renter-occupied, and 19% vacant. The local economy is based on farming, ranching, small retail businesses, and light manufacturing. Depressed crop prices and drought conditions have had a negative impact on the agricultural economy. The largest non-agricultural employers in the area are Mueller Supply and Buddy's Plant Plus Corporation, manufactures of metal buildings and plant fertilizer, respectively.

In order to gather more current information on the nature of the community and potential lending opportunities in the AA, we contacted one community leader during this examination. This contact is an officer with the Ballinger Chamber of Commerce. The contact stated that there were no unmet credit needs in the city of Ballinger. The contact further stated that BNB is active in the community and responsive to local credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

BNB's LTD ratio is considered satisfactory, given its asset size, financial condition, and lending opportunities in the AA. Since the last CRA examination, the LTD ratio has decreased from 63% at December 31, 1997, to 44% at September 30, 2001. The average LTD ratio over the past 16 quarters was 50%, which is below an average 63% during the previous examination. Such performance is consistent and reasonable given the decline in the local economy and available loan demand in the AA. Also, the LTD ratio is reasonable when compared with other banks headquartered in AA. During the period from December 1997 through September 2001, the competing banks had LTD ratios ranging from 59% to 73%. It should be noted that the LTD ratio of First National Bank, Ballinger, is enhanced by the volume of loans purchased from organizations outside of the AA. Also, Citizens State Bank (CNB) is located in close proximity to San Angelo, which provided CNB with access to a different market with greater lending opportunities. The asset size and LTD ratio for BNB and its three competing banks during this period are listed below.

Institution	Assets as of 09/30/01	Average LTD Ratio %**
First National Bank, Ballinger	40,879M	59.40
Citizens State Bank, Miles	35,604M	73.47
Security State Bank, Wingate	18,222M	60.16
<i>Ballinger National Bank</i>	<i>34,284M</i>	<i>49.82</i>

**** The average LTD ratio is based on the period between December 1997 and September 2001.**

Lending in Assessment Area

A satisfactory majority of the bank's loans are made within its AA. In order to assess performance for these criteria, we reviewed a sample of 25 commercial, 30 consumer, and 31 agricultural loans originated during 2000 through January 2002. Our analysis determined that 80% of the number and 89% of the dollar amount of commercial loans were made within the AA. We further determined that 83% of the number and 74% of the dollar amount of consumer loans were made within the AA. Finally, 71% of the number and 65% of the dollar amount of agricultural loans were made within the AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Commercial	20	80.0	2,067	88.6	5	20.0	265	11.4
Consumer	25	83.3	82	74.4	5	16.7	28	25.6
Agricultural	22	71.0	981	64.8	9	29.0	533	35.2
Total Reviewed	67	77.9	3130	79.1	19	22.1	826	20.9

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

BNB's loan portfolio reflects a satisfactory distribution among individuals of various income levels and commercial and agricultural-related businesses of different sizes within the AA. Our analysis included a sample of 25 consumer, 20 commercial, and 22 agricultural loans originated during the period of 2000 through January 24, 2002.

Our analysis determined that BNB lends to all applicants, regardless of their income category. Based on the 1990 Census, 44% of AA households are low- and moderate-income. Our review determined that 52% of consumer loans were made to low- and moderate-income households. The following chart reflects the results of our selected sample of consumer loans originated in BNB's AA.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	26.6		16.9		18.4		38.1	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	16	8	36	28	28	21	20	42

BNB originates a satisfactory number of commercial and agricultural loans to small businesses. Management continues to focus on providing loans that will enhance the local economy. As seen in the following charts, 100% of the number and dollar volume of loans sampled were to businesses

with gross annual revenues less than \$1,000,000.

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES - COMMERCIAL		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	96	4
% of Bank Loans in AA #	100	0
% of Bank Loans in AA \$	100	0

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES - AGRICULTURAL		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	96	4
% of Bank Loans in AA #	100	0
% of Bank Loans in AA \$	100	0

Geographic Distribution of Loans

As previously mentioned, all five BNAs located within the AA are classified as middle-income areas. Therefore, an analysis of loan distribution by geographic area would not be meaningful.

Responses to Complaints

No complaints relating to CRA performance have been received by BNB.

Fair Lending Review

An analysis of 1998 through 2001 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 examination was performed in 1997.