



## **PUBLIC DISCLOSURE**

June 5, 2017

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Llano National Bank  
Charter Number 17606

1001 Ford Street  
Llano, TX 78643

Office of the Comptroller of the Currency  
San Antonio North Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 78216-4165

**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 Outstanding.**

Major factors that support the rating include:

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and credit needs in the assessment area (AA).
- A substantial majority of loans, by number, originated inside the bank's AA.
- The distribution of loans represents reasonable penetration to businesses of different sizes and to individuals of different income levels.

## **SCOPE OF EXAMINATION**

We evaluated Llano National Bank's (LNB) lending performance using interagency Small Bank CRA procedures. Our evaluation focused on loan originations from January 1, 2015 to April 30, 2017. We analyzed lending activity during the evaluation period and identified commercial real estate (CRE) loans and residential loans as primary loan products. By dollar volume, CRE loans and residential loans represented 26% and 28%, respectively, of the total loan dollar volume originated in the evaluation period. We noted that by number, consumer loans comprised 65% of the loans originated during the evaluation period. Due to this high percentage, we also considered consumer loans as a primary product and sampled these loans to help evaluate LNB's responsiveness to AA credit needs. To evaluate borrower and geographic distributions, we selected samples of each primary loan product. The sample included a total of 146 loans; 64 residential loans, 62 consumer loans, and 20 CRE loans.

## **DESCRIPTION OF INSTITUTION**

LNB, a full-service, intrastate bank headquartered in Llano, Texas, is located 75 miles northwest of Austin and 110 miles north of San Antonio. LNB is 100% owned by Hill Country Bancshares Inc., a one-bank holding company also headquartered in Llano. We did not review any affiliate activities during this evaluation.

LNB has four locations; the main office in Llano, a full-service branch in Buchanan Dam, a full-service branch in Burnet, and an in-store bank branch in the Llano Lowe's Market. Each location has an automated teller machine (ATM), and except for the in-store branch, each offers drive-through services. Three locations provide convenient banking hours Monday through Friday with drive-through facilities open on Saturday. The in-store branch is also open on Saturday. LNB offers traditional loan and deposit products. In addition, customers can access LNB's online banking services via its Internet website (<https://www.llanonationalbank.com>) to view account balances and transaction detail, transfer funds between LNB-linked accounts, pay bills, and do remote check deposit.

As of March 31, 2017, LNB reported total assets of \$165.3 million and Tier 1 capital of \$18.7 million. Net loans totaled \$81.9 million or 50% of total assets and 56% of total deposits. The following table reflects a detailed breakdown of LNB's loan portfolio as of March 31, 2017.

Loan Portfolio Summary by Loan Category March 31, 2017		
Loan Category	Dollar Volume \$ (000)	% of Outstanding Dollars
Commercial (Including Real Estate)	\$36,332	44%
Residential	\$27,641	34%
Agricultural/Farmland	\$8,472	10%
Consumer	\$7,687	9%
Other	\$1,744	3%
<b>Total</b>	<b>\$81,876</b>	<b>100%</b>

Source: March 31, 2017 Call Report

There are no legal, financial, or other factors impeding LNB's ability to meet credit needs in its AA. LNB's current business strategy is to continue offering commercial and residential loans as primary loan products. The prior CRA evaluation, dated June 22, 2011, assigned an overall "Outstanding" rating to LNB's lending performance.

## DESCRIPTION OF ASSESSMENT AREA(S)

LNB has one AA. It includes two contiguous counties, Llano County and Burnet County, and neither county is part of a metropolitan statistical area. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income (LMI) geographies. The following table shows pertinent demographic data for the AA.

Demographic Information for Llano National Bank Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (CTs)	14	0%	0%	50%	50%
Population by Geography	62,051	0%	0%	52%	48%
Owner Occupied Housing Units by Geography	18,831	0%	0%	48%	52%
Businesses by Geography	5,110	0%	0%	43%	57%
Farms by Geography	257	0%	0%	41%	59%
Family Distribution by Income Level	17,418	15%	17%	19%	49%
Household Distribution by Income Level	24,778	18%	17%	16%	49%
Census Median Family Income (MFI)	\$47,817	Median Housing Value		\$150,403	
FFIEC Updated MFI: 2015	\$52,800	Households Below Poverty Level		12%	
FFIEC Updated MFI: 2016	\$52,400	Unemployment Rate		2.85%	
FFIEC Updated MFI: 2017	\$52,400				

Source: 2010 US Census Data and FFIEC Updated income data

Major cities in the AA include Llano, Burnet, Marble Falls, and Horseshoe Bay. The AA also includes several lakes, making it a popular vacation and retirement destination. LNB operates in a rural area with competition from other small community banks, federal thrifts, and branches of regional and large banks. The FDIC's Deposit Market Share report as of June 30, 2016, reflects 16 financial institutions operate 31 offices within the AA. LNB ranks 5<sup>th</sup> with a deposit market share of 10%; American Bank of Texas, a state bank, ranks 1<sup>st</sup> with a 17% market share.

Main industries in the AA include services, retail trade and construction. Major employers include Llano County, Burnet County, the City of Llano, Llano ISD, City of Burnet, Burnet Consolidated ISD, Llano Healthcare and Memorial, Scott and White Health System, Seton Highland Lakes, and Buttery Hardware. Of the 5,110 businesses operating in the AA, 90% are single location businesses, and 91% have fewer than ten employees.

The US Bureau of Labor Statistics reports a June 2017 seasonally-adjusted national unemployment rate of 4.4% and a State of Texas unemployment rate of 4.6%. The June 2017 unemployment rates for Llano County (3.7%) and Burnet County (3.3%) are less than both the national and state unemployment rates. Economic conditions within the AA are good and supported by the low unemployment rates.

To gain perspective on the community and the credit needs in the AA, we met with a local business person. The contact stated area financial institutions participate in community activities, providing monetary support and resources for projects as they arise. The contact said all of the banks provide loans, education, and assistance to local consumers and the business community. The contact also indicated banks in the AA are meeting credit needs of the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

LNB's quarterly average LTD ratio is more than reasonable given its size, financial condition, and credit needs within the AA, and meets the standards for outstanding performance. During the twenty-four quarters in the evaluation period, LNB's LTD ratio ranged from a low of 54% to a high of 69% with a quarterly average of 63%. To assess LNB's performance, we compared its quarterly average LTD ratio to two similarly situated institutions. As reflected in the following table, the average LTD ratios for the two institutions ranged from 36% to 59% with an overall quarterly average LTD ratio of 47%.

INSTITUTION	ASSETS (\$000s) As of March 31, 2017	AVERAGE QUARTERLY LTD RATIO As of March 31, 2017
Llano National Bank	165,305	63%
Arrowhead Bank	176,747	59%
First State Bank of Burnet	260,385	36%

### Lending in Assessment Area

LNB originated a substantial majority of loans, by number, inside its AA. The dollar volume of loans originated inside the AA is affected mainly by the percentage of business loans originated outside the AA. However, the dollar volume of loans to businesses outside the AA reflects LNB's opportunity to make larger loans to more complex businesses in the Austin, Texas market. The following table reflects the percentages, by number and dollar volume, of loans originated inside the AA.

Lending in Llano Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	604	84%	114	16%	718	6,621	78%	1,896	22%	8,517
Business Loans	101	77%	31	23%	132	7,581	50%	7,606	50%	15,187
Residential Loans	103	75%	34	25%	137	9,924	64%	5,642	36%	15,566
Agriculture Loans	62	73%	23	27%	85	2,615	58%	1,875	42%	4,490
<b>Totals</b>	<b>870</b>	<b>81%</b>	<b>202</b>	<b>19%</b>	<b>1,072</b>	<b>26,741</b>	<b>61%</b>	<b>17,019</b>	<b>39%</b>	<b>43,760</b>

Source: Loan Trial information January 1, 2015 through April 30, 2017

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

The distribution of loans represents reasonable penetration to businesses of different sizes and to individuals of different income levels.

### Residential Loans

Overall distribution to LMI borrowers is adequate and reflects reasonable penetration. As shown in the following table, the distribution of loans to low-income borrowers exceeds demographic data and reflects excellent penetration. The distribution of loans to moderate-income borrowers is adequate and reflects reasonable penetration.

Borrower Distribution of Residential Real Estate Loans in Llano Assessment Area									
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	
1-4 Fam Residential	15%	16%	17%	9%	19%	27%	49%	45%	

Source: Loan sample; 2010 US Census

### Consumer Loans

Overall distribution to LMI borrowers is excellent and reflects excellent penetration. As shown in the following table, the distribution of loans to low-income borrowers exceeds demographic data and reflects excellent penetration. Distribution of loans to moderate-income borrowers is near to demographic data and reflects reasonable penetration.

Borrower Distribution of Consumer Loans in Llano Assessment Area									
Borrower Income Level	Low		Moderate		Middle		Upper		
Loan Type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	
Consumer Loans	19%	26%	17%	16%	16%	19%	49%	39%	

Source: Loan sample; 2010 US Census

## Business Loans

The distribution of business loans reflects reasonable penetration to businesses of different sizes. For the distribution of business loans, we compared data from our business loan sample to demographic data from Dunn & Bradstreet. As reflected in the following table, 74% of the loans in our sample, and 82% by dollar volume, originated to businesses with annual revenues equal to or less than \$1 million. Demographic data reflects 87% of the businesses in the AA have annual revenues equal to or less than \$1 million (10% of businesses did not report revenue).

<b>Borrower Distribution of Loans to Businesses in Llano Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	87%	3%	10%	100%
% of Bank Loans in AA by #	74%	26%	-	100%
% of Bank Loans in AA by \$	82%	18%	-	100%

Source: Loan sample; Dunn and Bradstreet data for Non-farm businesses as of June 2016

## Geographic Distribution of Loans

A geographic distribution analysis would not be meaningful since there are no LMI CTs in the AA.

## Responses to Complaints

LNB did not receive any complaints related to its CRA performance during the evaluation period.

## FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.