



PUBLIC DISCLOSURE

May 15, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Waggoner National Bank of Vernon
Charter Number 5203

1818 Texas Street
Vernon, TX 76384

Office of the Comptroller of the Currency

5225 South Loop 289
Suite 108
Lubbock, TX 79424-1319

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 Satisfactory

- The Waggoner National Bank of Vernon (WNB) has a reasonable quarterly average loan-to-deposit ratio of 66 percent during the evaluation period.
- A majority of loans sampled are within the bank's assessment areas (AAs). Approximately 69 percent in number were made in the Wilbarger AA and 84 percent in number and 68 percent in dollar volume were originated in the Wichita AA.
- The lending performance to farms of different sizes and individuals of different income levels is reasonable.
- The geographic distribution of farm loans and consumer loans reflects reasonable dispersion throughout the Wilbarger County AA.

SCOPE OF EXAMINATION

We evaluated WNB using the small bank performance standards, which includes five performance criteria: the loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, geographic distribution of loans, and responses to CRA-related complaints.

To evaluate WNB's lending performance, a random sample of loans was selected based on the bank's primary loan types. Primary loan types are those products that have been originated at the highest percentage by number and/or dollar volume of loans. During this evaluation period, primary products consisted of agriculture and consumer loans in the Wilbarger County AA, and residential real estate and consumer loans in the Wichita County AA. To assess performance, we reviewed 30 agricultural and 28 consumer loans originated between January 1, 2015 to March 31, 2017 in the Wilbarger County AA, and 21 consumer loans in the Wichita County AA. We also reviewed all the residential real estate loans made from 2014-2016 in the Wichita County AA.

DESCRIPTION OF INSTITUTION

WNB is a \$281 million community bank located in Vernon, Texas, about 50 miles northwest of Wichita Falls, Texas. WNB is a wholly owned subsidiary of Waggoner National Bancshares, Inc., a single-bank holding company. WNB is an intrastate bank with its main office in Vernon, Texas. WNB has one branch located in Electra, Texas, between Vernon and Wichita Falls. The main bank and branch facility include full-service lobbies, drive-through facilities and automated teller machines (ATMs). Both lobbies are open Monday through Friday, and Monday through Saturday for the drive-through facilities. There is a trust department at the main bank. WNB also offers basic online banking at www.wnbvernon.com.

As of March 31, 2017, net loans and leases comprised 61 percent of total assets. The bank's primary loan products include Agricultural (by dollar volume and number) and consumer (by number).

The following table shows the composition of the loan portfolio.

Loan Portfolio Composition as of March 31, 2017				
Loan Type	\$000	% of \$	# of Loans	% of #
Agriculture and Farmland	54,421	32%	533	12%
Residential Real Estate (1-4 Family)	24,067	14%	746	16%
Consumer	16,146	10%	2,927	65%
Commercial and Commercial Real Estate	64,954	38%	271	6%
Other	10,635	6%	31	1 %
TOTAL	170,223	100.00%	4,508	100%

Source: Bank Loan Trial Balance

The bank's business strategy is to service agricultural, consumer, commercial, and real estate customer in both AAs. The bank received a Satisfactory rating at its April 11, 2011 CRA evaluation. WNB has no legal or financial circumstances that would impede that bank's ability to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREAS

WNB has established two AAs, Wilbarger County AA and Wichita County AA, both of which meet regulatory requirements and do not arbitrarily exclude any low- or moderate-income areas.

The Wilbarger County AA includes the Vernon main bank, drive-through facility, and ATMs. There are four census tracts in the Wilbarger County AA. One is moderate-income, and three are middle-income. The Wilbarger County economy is based on agriculture and energy production. Major employers include North Texas State Hospital and Tyson Foods.

The Wichita County AA includes the Electra branch, drive-through facility, and ATM. There are two census tracts in the Wichita County AA., which are located in the Wichita Falls Metropolitan Statistical Area (MSA). One is middle-income, and one is upper-income. Employers providing commutable jobs to the Wichita County AA include a number of industrial, banking, and federal government entities located in nearby Wichita Falls, Texas, including Sheppard Air Force base.

Other major employers in both AAs include the school districts, hospitals, and city and county governments.

The following table contains specific and economic data for the two AAs.

Demographic and Economic Characteristics		
Assessment Area	Wilbarger County AA	Wichita County AA
<i>Population</i>		
Number of Families	3,535	1,749
Number of Households	5,201	2,572
<i>Geographies</i>		
Number of Census Tracts (CTs)	4	2
% Low-Income CTs	0	0
% Moderate-Income CTs	25	0
% Middle-Income CTs	75	50
% Upper-Income CTs	0	50
% N/A CTs	0	4
<i>Median Family Income (MFI)</i>		
2010 MFI for AA	\$47,817	\$53,417
2016 HUD-Adjusted MFI	\$52,400	\$57,400
<i>Economic Indicators</i>		
% Unemployment Rate	2.78	2.06
2010 Median Housing Value	\$58,223	\$66,697
% of Households Below Poverty Level	21.86	12.09

Source: 2010 Census data and updated HUD income data

We contacted two local organizations to obtain a community profile and identify opportunities for community development participation by local institutions. Economic conditions are stable. The primary credit needs, as identified by the community contacts, are small business and general consumer (including residential real estate) credit. The contacts indicated the local financial institutions are fulfilling the immediate credit needs of the AAs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

WNB's loan-to-deposit ratio (LTD) is reasonable given the bank's size, financial condition, local competition, and AAs credit needs. This determination is based on the bank's quarterly average loan-to-deposit ratio for 24 quarters from March 31, 2011 through December 31, 2016 of 65.97 percent. The average net LTD ratio of similarly situated banks located in or adjacent to the AAs for the same period ranges from 29.57 percent to 99.07 percent, averaging 74.84 percent.

Loan-to-Deposit Ratios		
Institution Name	Total Assets (\$000s)	Quarterly Average Loan-to-Deposit Ratio (%)
The Waggoner National Bank of Vernon	272,102	65.97
First Bank, Burkburnett, TX	382,721	95.87
First National Bank, Wichita Falls, TX	441,375	99.07
FSNB, National Association, Lawton, OK	384,812	29.57

Source: Institution Reports of Condition from March 2011 to December 2016

Lending in Assessment Area

A majority of WNB's loans in the Wilbarger County AA by number were extended to borrowers who live or operate farms inside the AA at 69 percent. Loans by dollar amount in this AA were just slightly below average at 46 percent. A majority of WNB's loans in the Wichita County AA, 84 percent by number and 68 percent by dollar amount, were extended to borrowers who live inside the AA.

The breakdown by loan category is illustrated in the following tables.

Lending in the Wilbarger County AA								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Agriculture	20	67	\$3,241	45	10	33	\$3,943	55
Consumer	20	71	\$108	62	8	29	\$66	38
Total Reviewed	40	69	\$3,349	46	18	31	\$4,009	54

Source: Sample of loans used for CRA performance analysis.

Lending in the Wichita County AA								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential Real Estate	214	83	\$8,230	67	45	17	\$3,994	33
Consumer	20	95	\$257	97	1	5	\$7	3
Total Reviewed	234	84	\$8,487	68	46	16	\$4,001	32

Source: Sample of loans used for CRA performance analysis.

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

WNB's loan portfolio reflects an overall reasonable penetration among farms of different sizes and individuals of various income levels within the two AAs. To perform our analysis, we reviewed revenue information for 20 farm loans and 20 consumer loans originated in the Wilbarger County AA during 2015, 2016, and year-to-date 2017. We reviewed revenue information for 20 consumer and 214 residential real estate loans in the Wichita County AA during 2015, 2016, and year-to-date 2017.

Wilbarger County AA

The percentage of WNB farm loans by number and dollar amount is poor compared to AA farms with gross annual revenues less than or equal to \$1 million. About 98 percent of AA farms reported revenues less than or equal to \$1 million.

Borrower Distribution of Loans to Farms – Wilbarger AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	97.52	0.83	1.65	100
% of Bank Loans in AA by #	70	30	0	100
% of Bank Loans in AA by \$	52	48	0	100

Source: Loan sample; 2016 Dunn and Bradstreet data

The percentage of WNB’s consumer loans significantly exceeds the ratio of both low-income and moderate-income households in the AA. WNB originated 45 percent of consumer loans by number to low-income households and 30 percent to moderate-income households, compared to the AA demographics of 27 percent low-income households and 15 percent moderate-income households.

Borrower Distribution of Consumer Loans – Wilbarger AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	26.90	45.00	15.21	30.00	15.75	20.00	42.15	5.00

Source: Loan Sample; 2010 US Census

Wichita County AA

The percentage of WNB consumer loans in this AA significantly exceeds the ratio of both low-income and moderate-income households. WNB originated 45 percent of consumer loans by number in low-income households and 35 percent in moderate-income households, compared to the AA demographics of 21 percent to low-income households and 17 percent moderate-income households.

Borrower Distribution of Consumer Loans – Wichita AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	20.53	45.00	16.87	35.00	19.21	5.00	43.39	15.00

Source: Loan sample; 2010 US Census

The percentage of WNB home purchase loans to moderate-income families reflects a reasonable penetration compared to moderate-income families in the AA, while home improvement loans to moderate-income families reflects an excellent penetration compared to moderate-income families in the AA. The percentage of home purchase, home improvement, and home refinance loans to low-income families reflects poor penetration compared to low-income families in the AA, as is the percentage of home refinance loans to moderate-income families in the AA.

Borrower Distribution of Residential Real Estate Loans - Wichita AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Purchase	19.33	6.67	13.72	20.00	22.30	13.33	44.65	53.33
Improvement	19.33	0.00	13.72	40.00	22.30	0.00	44.65	60.00
Refinance	19.33	0.00	13.72	0.00	22.30	0.00	44.65	100.00

Source: Data reported under HMDA; U.S. Census data

Geographic Distribution of Loans

Overall, WNB’s geographic distribution of loans in the Wilbarger County AA reflects a reasonable dispersion given the performance context and business strategy. To perform our analysis, we reviewed 20 farm and 20 consumer loans originated in the Wilbarger County AA during 2015, 2016, and year-to-date 2017.

The percentage of WNB farm loans by number in both low- and moderate-income tracts is poor. Five percent of farm loans were originated in moderate-income tracts, while no farm loans were originated in low-income tracts. Opportunities to make farm loans in the one moderate-income tract in the AA are limited due to the tract being located in the city limits of Vernon, TX.

Geographic Distribution of Loans to Farms in Wilbarger AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0.00	0.00	11.57	5.00	88.43	95.00	0.00	0.00

Source: Source: D & B data, 2010 US Census.

The percentage of WNB consumer loans in moderate-income tracts is excellent compared to the ratio of AA households in moderate-income tracts. There are no low-income tracts in the AA.

Geographic Distribution of Consumer Loans in Wilbarger AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	20.90	40.00	79.10	60.00	0.00	0.00

Source: U.S. Census data.

The Wichita County AA does not contain low-or moderate-income census tracts. For this reason, a geographic distribution analysis of this AA is not meaningful and was not performed.

Responses to Complaints

Neither the bank nor the OCC have received any CRA-related complaints during the evaluation period. This has a neutral effect on the bank’s CRA performance.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or in any AA, or by an affiliate whose loans have been considered as part of the bank’s lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.