



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**May 19, 2008**

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

Community National Bank  
Charter Number 17002

1502 Avenue M  
Hondo, TX 78861

Office of the Comptroller of the Currency

SAN ANTONIO SOUTH FIELD OFFICE  
10001 Reunion Place, Suite 250  
San Antonio, TX 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 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.**

Community National Bank's (CNB) lending performance reflects a satisfactory response to community credit needs in its assessment area (AA). Factors that support the overall rating include:

- CNB's quarterly average loan-to-deposit (LTD) ratio of 72.45 percent is more than reasonable and exceeds the standard for satisfactory performance.
- CNB meets the standards for satisfactory performance with a majority of loans, 75.48 percent of the number of loans in our sample, originating in its AA.
- CNB meets the standards for satisfactory performance with reasonable distribution of loans to borrowers of different incomes and businesses of different sizes.

## **SCOPE OF EXAMINATION**

CNB was evaluated under the Small Bank examination procedures which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

Our examination scope covered the time period from October 22, 2001, the date of the prior Performance Evaluation, to May 19, 2008, the date of the current examination. We identified commercial, residential, and consumer loans to be the bank's primary loan products. To evaluate CNB's residential lending performance, we reviewed Home Mortgage Disclosure Act (HMDA) data filed by the bank for the years 2005, 2006, and 2007. To evaluate commercial and consumer lending we selected a random sample of 40 loans originated between 2005 and 2007. The commercial and consumer sample consisted of 20 loans for each type.

## **DESCRIPTION OF INSTITUTION**

CNB is an intrastate bank headquartered in Hondo, Texas. CNB was chartered in 1981 and is a wholly owned subsidiary of Medina County Bancshares, Inc., a one-bank holding company. As of March 31, 2008, CNB had total assets of \$101 million and tier one leverage capital of \$10.2 million. The bank's home office is located in Hondo and a branch office is located in Castroville. Both locations have drive-up facilities and ATMs. One additional stand alone ATM is located in Hondo. The bank is in the process of opening a new branch office in Lytle, Texas. While the city of Lytle is partly in Medina, Atascosa, and Bexar counties, the new branch office will be located in adjacent Atascosa County. Bank management plans to open the new full-service branch by July 31, 2008. There are six other community banks located in the AA (Medina County). As of March 31, 2008, CNB reported net loans of \$65 million, which represents 64 percent of total assets. The loan portfolio composition is as follows:

<b>Loan Portfolio Summary by Loan Product March 31, 2008</b>	
<b>Loan Category</b>	<b>% of Outstanding Dollars</b>
Commercial	57.04%
Residential	18.51%
Consumer	9.93%
Agriculture	8.35%
Farmland	5.28%
Other loans	0.89%
<b>Total</b>	<b>100%</b>

*Source: March 31, 2008 Consolidated Report of Condition.*

The bank was rated “Outstanding” at the previous CRA examination dated October 22, 2001. No legal impediments or other factors hinder the ability of CNB to provide credit needs in its AA.

## **DESCRIPTION OF ASSESSMENT AREA**

CNB designated all of Medina County as its AA. Medina County is part of the San Antonio Metropolitan Statistical Area. The AA includes six census tracts, which are all designated as middle-income. The distribution of families by income levels in the AA is as follows: low-income 22.84%; moderate-income 19.84%; middle-income 22.54%; and upper-income 34.78%. The percentage of households below the poverty level in Medina County is 15.02 percent. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The county’s largest cities are Hondo, the county seat, and Castroville. Hondo is located about 30 miles west of San Antonio.

Economic conditions are stable to improving. The economy is largely dependent upon agriculture related services, retail trade, health and social services, construction, and light manufacturing. The AA has also been benefited economically due to its proximity to a growing San Antonio. We conducted one community contact with an employee of a state agency. The contact identified student loans, affordable housing, and financial literacy programs as community needs.

The table on the following page is a summary of demographic information for this AA.

<b>Demographic Information for Medina County</b>					
	<b>#</b>	<b>% Low</b>	<b>% Moderate</b>	<b>% Middle</b>	<b>% Upper</b>
Geographies (Census Tracts)	6	0	0	100%	0
Population by Geography	39,304	0	0	100%	0
Housing Units by Geography	14,826	0	0	100%	0
Businesses by Geography	2,299	0	0	100%	0
Farms by Geography	226	0	0	100%	0
Family Distribution by Income Level	10,825	22.84%	19.84%	22.54%	34.78%
Household Distribution by Income Level	12,898	18.99%	14.54%	17.84%	48.63%
Census Median Family Income (MFI)		\$40,539	Median Housing Value		\$66,421
HUD – Adjusted MFI: 2007		\$53,100	Households Below the Poverty Level		15.02%
HUD – Adjusted MFI: 2006		\$53,100	Unemployment Rate		2.27%
HUD – Adjusted MFI: 2005		\$51,500			

*Source: 2007 Business Geodemographic Data; 2000 U.S. Census Data.*

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

CNB demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products originated since the previous CRA examination: commercial loans; residential loans; and consumer loans. Our sample of loans was selected to determine the extent of lending within the AA and the distribution of loans by borrower income or by the amount of business revenue. We did not determine geographic distribution as all census tracts in the AA are designated as middle-income and an analysis would not be meaningful.

### **Loan-to-Deposit Ratio**

CNB's quarterly average LTD ratio since the prior examination of 72.45 percent is more than reasonable and exceeds the standard for satisfactory performance. CNB's quarterly average LTD was higher than all six of the other community banks located in the AA. The following table reflects CNB's LTD ratio compared to the other community banks in the AA.

<b>Institution</b>	<b>Assets as of 3/31/08 (000s)</b>	<b>Average Quarterly LTD Ratio 3/31/08</b>
<i>Community National Bank – Hondo, Tx</i>	<b>100,911</b>	<b>72.45</b>
Bank of Texas – Devine, Tx	63,677	67.07
D’Hanis State Bank	33,519	65.16
Hondo National Bank – Hondo, Tx	105,425	60.38
Castroville State Bank – Castroville	88,586	45.74
Medina Valley State Bank	77,529	33.75
La Coste National Bank – La Coste	31,001	29.96

*Source: Quarterly Consolidated Report of Condition Information.*

### **Lending in Assessment Area**

CNB meets the standards for satisfactory performance with a majority of loans originating in its AA. We reviewed the banks HMDA data for residential loans and a sample of the commercial and consumer loans originated since the prior evaluation. The following table reflects the distribution of loans, by number and dollar volume, which originated in or out of the AA.

<b>Lending in Medina County</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans (000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Home Purchase	99	67.81	47	32.19	146	8,949	69.23	3,978	30.77	12,927
Home Improvement	25	83.33	5	16.67	30	1,212	75.99	383	24.01	1,595
Refinancing	39	86.67	6	13.33	45	3,418	85.75	568	14.25	3,986
Commercial	18	90.00	2	10.00	20	842	75.72	270	24.28	1,112
Consumer	16	80.00	4	20.00	20	122	81.77	27	18.23	149
<b>Total Reviewed</b>	<b>197</b>	<b>75.48</b>	<b>64</b>	<b>24.52</b>	<b>261</b>	<b>14,543</b>	<b>73.56</b>	<b>5,226</b>	<b>26.44</b>	<b>19,769</b>

*Source: Source: HMDA Data 2005 – 2007 (residential loans) and 2005 – 2007 Commercial & Consumer Loan Sample.*

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

CNB meets the standards for satisfactory performance with reasonable distribution of loans to borrowers of different incomes and businesses of different sizes. The following narratives and tables reflect our findings.

Residential lending to low-income borrowers is reasonable. The bank made 9.20 percent of its total number of residential loans to low-income borrowers. This level of

lending represents about 40 percent of the total number of low-income families of 22.84 percent in the AA. Residential lending to moderate-income borrowers is also reasonable. The bank made 18.40 percent of its total number of residential loans to moderate-income borrowers. This level of lending is comparable to the total number of moderate-income families of 19.84 percent in the AA. The following table reflects the bank's record of residential lending in the AA during 2005 through 2007.

<b>Borrower Distribution of Residential Real Estate Loans by Income Level in Medina County</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>	<b>% of AA Families</b>	<b>% of Number of Loans</b>
Home Purchase	22.84	11.11	19.84	18.18	22.54	24.24	34.78	45.45
Home Improvement	22.84	12.00	19.84	16.00	22.54	12.00	34.78	60.00
Refinancing	22.84	2.56	19.84	20.51	22.54	33.33	34.78	43.59
<b>Total</b>	<b>22.84</b>	<b>9.20</b>	<b>19.84</b>	<b>18.40</b>	<b>22.54</b>	<b>24.54</b>	<b>34.78</b>	<b>47.24</b>

*Source: HMDA Data 2005 – 2007 (one home purchase loan or 1.01% was listed as not applicable in the HMDA report)*

The distribution of loans to small businesses exceeds the standard for satisfactory performance. Ninety-five percent of the bank's commercial loans, originated during the loan sampling period, were made to small businesses. Small businesses are businesses with gross annual revenue of \$1 million or less. About 33 percent of the businesses either did not report revenue data or it was unavailable. The following table shows the distribution of commercial loans among different sized businesses in the AA.

<b>Borrower Distribution of Commercial Loans by Business Revenue in Medina County</b>				
<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>	<b>Unavailable/Unknown</b>	<b>Total</b>
<b>% of AA Businesses</b>	<b>64.04%</b>	<b>2.77%</b>	<b>33.19%</b>	<b>100%</b>
% of Bank Loans in AA by #	95.00	5.00	0	100
% of Bank Loans in AA by \$	87.17	12.83	0	100

*Source: Loan sample; 2007 Business Geodemographic Data.*

Our analysis of consumer lending activity to borrowers with low- and moderate-income reflects lending that exceeds the standards for satisfactory performance. As shown in the following table, 55 percent of the number of loans in our sample were originated to borrowers with low-income, compared to the total number of low-income households in the AA of 18.99 percent. Our sample of consumer loans reflected loans to moderate-income borrowers of 10.00 percent, which compares favorably to the total number of moderate-income households of 14.54 percent. The following table reflects the record of consumer lending in your AA during the evaluation period.

<b>Borrower Distribution of Consumer Loans by Income Level in Medina County</b>								
<b>Borrower Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>	<b>% of AA Households</b>	<b>% of Number of Loans</b>
Consumer	18.99	55.00	14.54	10.00	17.84	10.00	48.63	25.00

*Source: Loan Sample; 2000 U.S. Census Data.*

### **Geographic Distribution of Loans**

An analysis of the geographic distribution of loans was not conducted. All six census tracts in your AA are designated as middle-income and a geographic analysis would not be meaningful.

### **Responses to Complaints**

CNB has not received any consumer complaints related to 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.