



SMALL BANK

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

PUBLIC DISCLOSURE

January 29, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Ozona National Bank
Charter Number 7748**

**503 11th Street
Ozona, TX 76943**

**Comptroller of the Currency
San Antonio South 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 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.

Ozona National Bank's lending performance reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas. This rating is supported by the following factors.

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, market focus, and lending opportunities available in the assessment areas (AA).
- A substantial majority of loans, representing 82% of the number and 67% of the dollar volume, were made to borrowers in the bank's AA during 2004 through 2006.
- The distribution of loans to individuals of different income levels and to businesses of different sizes is reasonable.
- The geographic distribution of loans is satisfactory and includes lending in low- and moderate-income areas.
- There have been no consumer complaints regarding the bank's CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

Ozona National Bank (ONB) is a community bank with total assets of \$149 million headquartered in Ozona, Texas, the county seat of Crockett County. Ozona is located about 200 miles northwest of San Antonio, Texas on IH 10. Two additional branches are located in Hays County, Texas, one in San Marcos and the other in Wimberley. The bank also has two loan production offices, one in San Antonio and the other in Bowie, Texas. As of February 2007, the bank is entirely owned by a one-bank holding company titled Ozona Bancshares. The primary market focus of this locally owned and operated bank includes commercial real estate loans, construction loans, commercial loans, residential real estate loans, and consumer loans. The previous CRA Performance Evaluation dated April 22, 2002 was Satisfactory. There are no legal or other impediments that limit the bank's ability to meet the credit needs of the AA. As of September 30, 2006, the bank's net loans of \$64 million represented 43% of total assets. A summary of the loan portfolio is included below:

| Loan Category | \$ (000) | % |
|---|-----------------|----------------|
| Non-Farm/Nonresidential Real Estate Loans | 29,034 | 45.0 |
| Real Estate Construction Loans | 13,538 | 21.0 |
| Commercial & Industrial Loans | 10,376 | 16.1 |
| Consumer Loans | 4,548 | 7.1 |
| 1-4 Family Residential Loans | 4,143 | 6.4 |
| Multifamily Loans | 1,127 | 1.8 |
| Farmland Loans | 797 | 1.2 |
| Agricultural Loans | 714 | 1.1 |
| Other Loans | 203 | 0.3 |
| Total | \$64,480 | 100.00% |

DESCRIPTION OF CROCKETT AND HAYS COUNTIES

ONB has two designated assessment areas (AA) consisting of Crockett County and Hays County, Texas.

Crockett County

Crockett County is a rural West Texas county with an estimated population in 2005 of 3,934. The county seat, Ozona, makes up almost 84% of this population. In the past three decades, the population of Crockett County experienced only marginal growth of approximately 5.5%. In 2005, the largest economic sector was mining and production of oil and natural gas, followed by agriculture. Lending demand in Crockett County is primarily for consumer and commercial loans. The median family income in 2006 for Crockett County was \$43,100. The entire county is made up of one middle income census tract. The distribution of families in Crockett County by income level is 21% low-income, 21% moderate-income, 15% middle-income, and 43% upper-income families.

Hays County

Located in Central Texas, Hays County is part of the Austin-Round Rock Metropolitan Statistical Area (MSA). Hays County includes the following nine cities: Bear Creek, Buda, Dripping Springs, Hays, Kyle, Mountain City, San Marcos, Wimberley, and Woodcreek. The estimated county population in 2005 totaled 124,432, for a 27.5% percent increase from the 97,589 reported in the 2000 Census. The population of the county seat, San Marcos, represented almost 36% of the county population in 2000. The economy of Hays County is widely diversified; however, in 2005 retail trade comprised the largest sector. Additional influences on the local economy include Texas State University located in San Marcos, formerly known as Southwest Texas State University. Hays County consists of 14 census tracts including one low-income, six moderate-income, five middle-income, and two upper-income level tracts. The distribution of families in Hays County by income level is 19% low-income, 21% moderate-income, 24% middle-income, and 36% upper-income.

The bank's AAs reasonably represent the bank's lending and service areas. The designation

meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. Additional demographic information for the AAs is presented in the following table. The “Non-MSA” column refers to Crockett County while the “MSA” column refers to Hays County.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA | | |
|---|----------|-----------|
| Population | Non-MSA | MSA |
| Number of Families | 1,124 | 22,394 |
| Number of Households | 1,522 | 33,465 |
| Geographies | | |
| Number of Census Tracts | 1 | 14 |
| % Low-Income Census Tracts | - | 7% |
| % Moderate-Income Census Tracts | - | 43% |
| % Middle-Income Census Tracts | 100% | 36% |
| % Upper-Income Census Tracts | - | 14% |
| <i>Median Family Income (MFI)</i> | | |
| 2000 Census MFI for AA | \$34,653 | \$57,800 |
| 2005 HUD-Adjusted MFI | \$42,000 | \$68,600 |
| 2006 HUD-Adjusted MFI | \$43,100 | \$69,600 |
| Economic Indicators | | |
| Unemployment Rate | 3.07% | 3.46% |
| 2006 Median Housing Value | \$48,900 | \$112,017 |
| % of Households Below Poverty Level | 19% | 14% |

As part of our examination we contacted a local economic development agency in Hays County. This contact indicated significant involvement by most financial institutions in the surrounding community to meet the credit needs of consumers and small business owners. Furthermore, the contact indicated a need for affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio (LTD) is reasonable. Over the previous nineteen quarters the quarterly LTD ratio averaged just over 50%. The LTD ratio ranged from 47% to 55% over this time period. The quarterly average ratios for comparable banks ranged from 73% to 111% during the same time period.

The following table contains additional information on the LTD ratio of ONB and comparable banks.

| Institution | Total Assets (9/30/2006) | Average LTD Ratio |
|---|-------------------------------------|------------------------------|
| Crockett National Bank – Ozona, Tx | \$225,272 | 111% |
| First State Bank – New Braunfels, Tx | \$201,381 | 85% |
| Blanco National Bank – Blanco, Tx | \$135,074 | 80% |
| Bank of Texas – Austin, Tx | \$82,680 | 74% |
| First National Bank of Sonora – Sonora, Tx | \$151,984 | 73% |
| <i>Ozona National Bank – Ozona, Tx</i> | <i>\$148,708</i> | <i>50%</i> |

While ONB's LTD ratio is less than similarly situated banks, ONB's LTD ratio does not include loans that are processed through its mortgage lending department. For the years 2003 through 2006 ONB processed 76 residential type loans totaling \$11,010,000. Thirty-seven, or 49%, of these loans were in the original amount of \$110 thousand or less. These residential type loans are funded by various outside lenders. Through its mortgage lending department, ONB offers a number of long term lending options including several affordable housing programs. In addition, a significant portion of ONB's deposit base is derived from the Crockett County AA; however, loan demand in that area is considerably less than from the Hays County AA.

Lending in Assessment Areas

The bank extends a substantial majority of its loans to borrowers in the AAs. To arrive at this assessment we reviewed all residential related loans originated in 2004, 2005, and 2006 and reported in the bank's Home Mortgage Disclosure Act (HMDA) loan register. For our analysis, we also used a random sample of consumer and commercial loans made during the same time period. Of our total sample of loans, 82% by number and 67% by dollar amount were made to borrowers in the AAs.

| TOTAL LOANS REVIEWED | | | | | | | | |
|-----------------------------|---------------------------|------------|------------------|------------|-------------------------------|------------|------------------|------------|
| LOAN TYPE | IN ASSESSMENT AREA | | | | OUT OF ASSESSMENT AREA | | | |
| | # | % | \$ (000s) | % | # | % | \$ (000s) | % |
| Residential Real Estate | 72 | 78% | \$5,152 | 64% | 20 | 22% | \$2,923 | 36% |
| Consumer | 34 | 85% | \$412 | 79% | 6 | 15% | \$110 | 21% |
| Commercial | 18 | 90% | \$757 | 97% | 2 | 10% | \$25 | 3% |
| Total Reviewed | 124 | 82% | \$6,321 | 67% | 28 | 18% | \$3,058 | 33% |

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

The following tables reflect the lending performance of ONB to borrowers of different income levels in Crockett and Hays Counties between 2004 and 2006. The overall loan distribution to individuals within the AAs and by different income levels meets the standard for satisfactory performance. The tables for Hays County reflect strong consumer lending performance to low- and moderate-income borrowers and satisfactory residential lending performance to low- and moderate-income borrowers. The tables for Crockett County reflect good consumer lending performance to low- and moderate-income borrowers, good residential lending performance to moderate-income borrowers, but a low number of residential loans to low-income borrowers. The low record of residential loans to low-income borrowers in Crockett County is primarily attributed to the low availability of affordable homes.

The following table lists results from the 37 residential type loans totaling \$1.3 million made to borrowers in the *Crockett County* AA (from the HMDA loan register).

| CROCKET COUNTY RESIDENTIAL REAL ESTATE | | | | | | | | |
|---|----------------|-------------|-------------|-------------|----------------|-------------|----------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Families | 21% | | 21% | | 15% | | 43% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 3% | 2% | 22% | 12% | 13% | 7% | 62% | 79% |

The following table lists results from a sample of 20 consumer loans totaling \$277 thousand made to borrowers in the *Crockett County* AA.

| CROCKET COUNTY CONSUMER | | | | | | | | |
|----------------------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|----------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 24% | | 19% | | 16% | | 41% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 25% | 14% | 15% | 8% | 35% | 35% | 25% | 43% |

The following table lists results from the 35 residential type loans totaling \$4.1 million made to borrowers in the *Hays County* AA (from the HMDA loan register).

| HAYS COUNTY RESIDENTIAL REAL ESTATE | | | | | | | | |
|--|----------------|-------------|-------------|-------------|----------------|-------------|----------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Families | 19% | | 21% | | 24% | | 36% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total* | 17% | 7% | 20% | 9% | 20% | 7% | 29% | 21% |

* The remaining 14% of the number of borrowers in this AA did not report annual income during this evaluation period.

The following table lists results from a sample of 20 consumer loans totaling \$313 thousand made to borrowers in the *Hays County* AA.

| HAYS COUNTY CONSUMER | | | | | | | | |
|--------------------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|----------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 26% | | 20% | | 18% | | 36% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 45% | 28% | 25% | 24% | 10% | 3% | 20% | 45% |

Our commercial loan sample centered on loans made in the Hays County AA where the majority of ONB's commercial lending activity and growth occurred in recent years. Our sample reflected satisfactory performance in lending to small businesses and farms in Hays County. The following table lists results from a sample of 20 commercial loans totaling \$797 thousand made to borrowers in the *Hays County* AA.

| BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES & FARMS | | |
|--|--------------|--------------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses | 70% | 3% |
| % of Bank Loans in AA # | 75% | 25% |
| % of Bank Loans in AA \$ | 66% | 34% |

*The remaining 27 percent of businesses and farms in this AA did not report revenues during this evaluation period.

Geographic Distribution of Loans

The overall geographic distribution of loans made within the AA is reasonable. Our analysis of geographic distribution was limited to the Hays County AA as the Crockett County AA is made up of only one census tract. Your record of residential and commercial lending in low- and moderate-income tracts is good. Based on our sample, your record of consumer lending in the one low-income census tract was low; however, consumer lending in the moderate-income tracts was good.

| GEOGRAPHIC DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN HAYS COUNTY | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Owner Occupied | 4% | | 21% | | 48% | | 28% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 6% | 2% | 23% | 27% | 69% | 66% | 2% | 5% |

| GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS IN HAYS COUNTY | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 12% | | 24% | | 45% | | 20% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 0% | 0% | 25% | 25% | 65% | 57% | 10% | 18% |

| GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS IN HAYS COUNTY | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Businesses | 0% | | 34% | | 41% | | 25% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Total | 10% | 12% | 35% | 33% | 55% | 55% | 0% | 0% |

Responses to Complaints

There have been no consumer complaints during this evaluation period regarding the bank's CRA performance.

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.