



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 8, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Stockmens National Bank in Cotulla
Charter Number 14302

206 N. Main Street
Cotulla, TX 78014-2151

Office of the Comptroller of the Currency

San Antonio – South Field Office
10001 Reunion Place, Suite 250
San Antonio, Texas 78216-4133

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."

Stockmen's National Bank (SNB) in Cotulla's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The bank's loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area (AA) credit needs.
- A majority of loans are in the AA.
- The distribution of borrowers reflects, given the demographics of the area, reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

The scope of the examination covered the time period from April 22, 2002, the date of the prior Performance Evaluation, to December 8, 2008, the date for the current examination. We identified commercial, agricultural, and consumer loans as primary loan products of the bank.

DESCRIPTION OF INSTITUTION

SNB is a \$44 million financial institution founded in 1904, and is the only bank headquartered in the AA. SNB is a locally owned bank with one location in Cotulla, Texas - a full service bank and one drive-up facility. SNB owns no automatic teller machines (ATMs). Management and the Board emphasize loans to businesses, farms, and consumers. The bank is not a subsidiary of any holding company and does not have any significant subsidiaries or affiliates.

As of September 30, 2008, gross loans comprised 31 percent of SNB's total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Summary by Loan Product September 30, 2008		
Loan Category	Dollar Volume (000's)	% of Dollar Volume
Commercial & Commercial Real Estate	5,346	37%
Agriculture/Farm	3,518	25%
Consumer	2,945	21%
Residential	2,125	15%
Other Loans	338	2%
Total	14,272	100%

Source: September 30, 2008, Consolidated Report of Condition

There are no legal, financial, or other factors impeding the bank's ability to meet the credit needs of its AA. The last CRA performance evaluation was performed as of April 22, 2002, and the bank was rated "Outstanding."

DESCRIPTION OF ASSESSMENT AREA

The bank's AA is La Salle County, Texas. Cotulla is located approximately 90 miles southwest of San Antonio. The AA meets the requirements of the regulation. The county is divided into two census tracts. One is designated low-income, while the other is moderate-income. There are no middle- or upper- income census tracts in the AA.

Agriculture, government, and oil and gas dominate the area economy. Cattle are the primary agricultural product and La Salle County is internationally known for game hunting. Although the area has experienced below average rainfall in the past few years, cattle prices remain strong and hunting continues to bring in record income for county businesses and land owners. Major employers in the AA are the Immigration and Naturalization Service, county government, and the local school system. SNB's competition comes primarily from one agricultural lending agency in the AA.

The population of the AA is approximately 5,900. The vast majority, over 5,000 or 86 percent of the population, reside in the moderate-income census tract based on 2000 census data. The median housing value is \$26,410 and the median year built is 1967. The 2008 updated Department of Housing and Urban Development (HUD) weighted-average median family income (MFI) for the AA is \$43,600. Please refer to the following chart for additional information on the economic and demographic characteristics of the AA.

Demographics and Economic Characteristics of AA – La Salle County	
Population	
Number of Families	1,360
Number of Households	1,821
Geographies	
Number of Census Tracts/BNA	2
% Low-Income Census Tracts/BNA	50%
% Moderate-Income Census Tracts/BNA	50%
% Middle-Income Census Tracts/BNA	0%
% Upper-Income Census Tracts/BNA	0%
Median Family Income (MFI)	
2000 Census MFI	\$36,380
2008 HUD-Adjusted MFI	\$43,600
Economic Indicators	
Unemployment Rate	2.68%
2008 Median Housing Value	\$26,410
% Owner Occupied Housing	56%
% Households Below Poverty Level	30%

Source: 2008 Business Geodemographic Data; 2000 U.S. Census Data

We conducted one community contact with a local government official. He spoke favorably of the bank and identified assisted living for the elderly as a local need.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SNB has 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, agricultural, and consumer loans. We reviewed a sample of 20 loans from each of the three loan categories (60 loans total). We used these samples to determine the extent of lending within the AA, the distribution of loans by borrower income level, and the geographic distribution of loans in the AA.

Loan-to-Deposit Ratio

The LTD ratio is reasonable given SNB’s size, financial condition, and AA credit needs. During our review period, April 2002 through September 2008, SNB’s average quarterly LTD ratio was 42 percent. It ranged from 33 percent to 49 percent during that time. The average ratio for three similarly situated institutions from surrounding counties had a quarterly average LTD ratio of 37 percent.

Institution	County	Total Assets (000) (As of 09/30/08)	Average LTD Ratio
Texas National Bank	Dimmit	\$73,854	50%
Stockmen’s National Bank	La Salle	\$46,112	42%
Zavala County Bank	Zavala	\$53,142	38%
Dilley State Bank	Frio	\$52,191	24%

Source: Quarterly Consolidated Report of Condition Information

Lending in Assessment Area

A majority of the bank’s loans are in the AA. The majority of the bank’s lending-related activities are within the AA. We determined that 78 percent of loans by number and 45 percent by dollar volume are made to borrowers located within the AA. The dollar amount of agricultural loans made in the AA is skewed by one large loan in our sample made outside the AA. This loan had an original amount of \$500,000, significantly exceeding the dollar amount of other loans in the sample.

Lending in La Salle County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	18	90%	2	10%	20	\$40	82%	\$9	18%	\$49
Agricultural	12	60%	8	40%	20	\$229	18%	\$1,066	82%	\$1,295
Commercial	17	85%	3	15%	20	\$790	77%	\$232	23%	\$1,022
Totals	47	78%	13	22%	60	\$1,059	45%	\$1,307	55%	\$2,366

Source: Loan Sample

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

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels and businesses of different sizes.

Our sample of commercial loans made within the AA indicates a reasonable distribution of loans to small businesses. Of the 20 commercial loans in our sample, 90 percent of the number was made to businesses with revenues less than \$1 million. This is comparable to the 54 percent of AA businesses that reported income data having similar revenues. The following table illustrates the distribution of these loans.

Borrower Distribution of Loans to Businesses in La Salle County		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses *	54%	3%
% of Bank Loans in AA by #	90%	10%
% of Bank Loans in AA by \$	79%	21%

Source: Loan sample; 2008 Business Geodemographic Data

** 43 percent of AA businesses in La Salle County did not report revenue data*

Our sample of agricultural loans made within the AA reflects favorably on the bank’s lending activities. SNB made all of the farm loans in our sample to farms with gross annual revenues of less than \$1 million. Of the farms in the AA that reported income data, 5 percent reported gross annual revenues of more than \$1 million. The following table illustrates the distribution of these loans.

Borrower Distribution of Agricultural Loans in La Salle County		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	95%	5%
% of Bank Loans in AA by #	100%	0%
% of Bank Loans in AA by \$	100%	0%

Source: Loan sample; 2008 Business Geodemographic Data

The bank’s record of consumer lending falls below the demographics of the AA for low-income borrowers. Only 5 percent of the consumer loans we sampled were made to low-income borrowers. This compares to 37 percent of the AA households which are low-income. The bank’s lending performance is strong when considering moderate-income borrowers. Thirty percent of the consumer loans sampled were made to moderate-income borrowers, which exceeds the 19 percent of AA households that are moderate-income. The following table illustrates the distribution of these loans.

Borrower Distribution of Consumer Loans by Income Level in La Salle County								
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	37%	5%	19%	30%	20%	35%	24%	30%

Source: Loan Sample; U.S. Census Data

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. One of the agricultural loans and none of the commercial or consumer loans we sampled were made in the low-income census tract. This low level of lending is understandable given the geographic characteristics of the AA. The town of Cotulla and 85 percent of the county’s population are in the moderate-income census tract. The low-income census tract is located in the southernmost part of La Salle County and is approximately 25 miles from the bank. Bank management indicated that the majority of the population in the low-income area conducts their banking business in Laredo, Texas, which is approximately 40 miles southwest of the low-income census tract. There are many larger financial institutions and finance companies in Laredo. The following tables illustrate the lending distribution of the sampled commercial, agricultural, and consumer loans originated in the AA.

Geographic Distribution of Commercial Loans in La Salle County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Commercial	15%	0%	85%	100%	0%	0%	0%	0%

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

Geographic Distribution of Agricultural Loans to Farms in La Salle County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans	% of AA Farms	% of # of Loans
Farm	27%	5%	73%	95%	0%	0%	0%	0%

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

Geographic Distribution of Consumer Loans in La Salle County								
Census Tract 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	35%	0%	19%	100%	20%	0%	27%	0%

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

Responses to Complaints

SNB has not received any consumer complaints related to its CRA performance during the 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.