



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 8, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
Charter Number: 17002**

**1502 Avenue M
Hondo, Texas 78861**

**Office of the Comptroller of the Currency
Southwestern District
1600 Lincoln Plaza
500 N. Akard
Dallas, Texas 75201-3394**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Community National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 8, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **OUTSTANDING**.

Community National Bank's lending performance reflects a strong response to community credit needs which includes low- and moderate-income (LMI) borrowers. The following highlights the bank's performance:

- The loan-to-deposit ratio is strong given the bank's resources, the local credit needs, and local competition.
- A significant level of the bank's loan volume is inside its respective assessment area.
- The distribution of the bank's consumer loans among borrowers of different income levels and commercial and agricultural loans among borrowers of different gross annual revenues is very good.
- The bank's assessment area, Medina County, has no LMI census tracts. Therefore, the geographic distribution of the bank's loans is not rated because data regarding loans to LMI areas is not measurable.
- The bank has received no consumer complaints concerning its Community Reinvestment Act performance.

The following table indicates the performance level of **Community National Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>(NAME OF FINANCIAL INSTITUTION)</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different sizes	X		
Geographic Distribution of Loans	Not Measurable		
Response to Complaints	No complaints were received since the prior examination		

DESCRIPTION OF INSTITUTION

Community National Bank (CNB) was chartered in 1981 and is located in Hondo, Texas. It operates one branch office in Castroville, Texas, which was opened in July 1987. Both locations have drive-up facilities. CNB recently received regulatory approval to construct an expanded branch building in Castroville. CNB is a subsidiary of Medina Community Bancshares, Inc., a one-bank holding company based in Hondo, Texas, with total assets of \$50 million. On June 30, 1996, CNB's net loans were 56% of its total assets of \$50 million. The composition of the bank's loan portfolio is 46% real estate, 19% commercial, 18% consumer, and 17% agriculture.

The bank's financial condition is such that there are no financial or legal impediments to making credit available to the assessment area (AA). The bank offers traditional loan products and has recently begun offering five-year fixed rate, balloon home mortgage loans based on a 20-year amortization. The bank has automatic teller machines (ATM's) available in D'Hanis and Hondo, and the new branch building will include a drive-up 24 hour ATM. The last CRA performance evaluation was done December 14, 1993, and the bank was rated "Satisfactory."

DESCRIPTION OF MEDINA COUNTY

The bank has defined Medina County as its AA. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI areas. According to the 1990 U.S. Census, Medina County has a population of 27,312. The county is a non-metropolitan statistical area (non-MSA). The Department of Housing and Urban Development (HUD) cites the 1996 non-metropolitan median family income at \$28,900. The 1990 U.S. Census median family income for the AA is \$24,586. The county is divided into seven census tracts. Five are classified as middle-income and two are classified as upper-income. The distribution of income levels in the AA is 23% low-income, 14% moderate-income, 20% middle-income, and 43% upper-income.

The county's primary cities are Hondo, the county seat, and Castroville. Their economies are dependent primarily upon farming, ranching, and real estate. There is a state minimum security prison which employs 375 workers, and a 500-bed drug abuse rehabilitation unit which employs 125 persons located in Hondo. This makes the Texas Department of Corrections the county's largest employer. The current unemployment rate is 3.2%, which is the lowest when compared to adjacent counties. The bank's competition in its AA consists of six independent community banks, and a branch of a multinational bank.

This office conducted two community contacts in CNB's AA. One person is involved with an economic development agency and the other is involved in public information. Credit needs identified by one contact included home improvement, consumer, and small business loans. The contact stated that the local financial institutions are meeting these needs to the best of their ability. The second contact identified a need for middle-income housing to accommodate state prison employees and a wider variety of mortgage loan products with

fixed rates and longer terms.

Senior management has informally identified the major credit needs as consumer, agricultural, residential, and small business loans. In response to a perceived need, management recently implemented a home loan program that offers a fixed rate loan with a 5-year maturity with payments based on a 20-year amortization period. This program complements CNB's interim construction home loan product by trying to keep permanent home loans in the AA.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Management has demonstrated outstanding performance in meeting the credit needs of the AA, including LMI individuals, consistent with its resources and capabilities.

Loan -to-Deposit Ratio

The net loan to deposit (L/D) ratio is very good. Since the last CRA evaluation in December 1993, the L/D ratio has ranged from a high of 64% to a low of 56%, with an average of 60%. At June 30, 1996, the bank had the highest L/D ratio (62%) for all banks in the AA. The competitor group's June 30, 1996, L/D ratios ranged from 15% to 47%. These figures do not include the branch of the multinational bank in Hondo.

Lending in the Assessment Area

A significant majority of credit extended is within the AA. An analysis performed by the bank in August 1996 reflected 93% of the dollar volume, and 99% of the number of outstanding loans were located within the AA.

Lending to Borrowers of Different Incomes and Different Size Businesses

The distribution of loans to businesses and farms/ranches is very good, with emphasis on those entities with gross annual revenues of less than \$100,000. This is significant, because 38% of the bank's total loans are to commercial and agricultural borrowers. The following table reflects the bank's total commercial and agricultural loan originations since the prior evaluation:

Lending to Businesses of Different Sizes										
Revenue Ranges	<\$100,000		\$100,000 - \$500,000		\$500,000 - \$1,000,000		>\$1,000,000		Total	
Commercial	76	52%	57	39%	6	4%	6	4%	145	100 %

Lending to Businesses of Different Sizes										
Agricultural	53	67%	25	32%	0	0%	1	1%	79	100%

The distribution of loans to individuals with different income levels is reasonable. The following table reflects the distribution of these lending activities:

Lending to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographic Characteristics	23%		14%		20%		43%		100%	
Loan Types	#	%	#	%	#	%	#	%	#	%
1-4 Family*	2	7%	2	7%	8	29%	16	57%	28	100%
Consumer-Unsecured*	44	21%	68	32%	50	23%	51	24%	213	100%
Consumer-Auto**	11	44%	3	12%	5	20%	6	24%	25	100%

* Originated from January 2, 1996 to August 31, 1996. Information compiled by CNB.

** Originated from May 1, 1996 to August 31, 1996. Information compiled by this Office.

The bank is an active lender to the LMI customer in its AA. A clear indicator is the number of consumer loans to LMI borrowers compared to the AA's demographics. Fifty-three percent of unsecured consumer loans made in 1996 were to LMI families, which make up 37% of the total area population. In addition, the bank has addressed small loan needs by actively making loans less than \$1,000. Seventy-five loans or 22% of the 334 consumer loans made from January 2, 1996, to August 31, 1996, originated for less than \$1,000. This lending activity confirms the bank's intent to meet the credit needs of the LMI borrower, in view of the marginal profit generated from these loans.

The percentage of residential loans to LMI families does not reflect the area demographics primarily because of a nominal affordable housing stock in relation to LMI family income of \$23,120. This is evidenced in the number of affordable housing units available for purchase in the Hondo and Castroville areas as of October 4, 1996. The lowest priced home is

\$39,500. The next two are priced at \$48,000 each. All three are in Hondo, which is primarily a middle income tract. The next three lowest priced homes are listed at between \$54,000 and \$59,000, and all are in Castroville, a high-income census tract. The three remaining Hondo listings are for \$71,500, \$79,500, and \$225,000. The remaining eight listings in Castroville average over \$135,000. While the bank has not been able to significantly service LMI housing needs through direct home purchase loans, it has made one loan for the purchase and renovation of a 16-unit apartment complex in Hondo that provides housing for LMI families. As of October 4, 1996, 12 of the units were rented to LMI families. The bank has made 19 other loans for the purchase of 1-4 family dwellings totaling 806M that are for LMI rental housing.

Geographic Distribution of Loans

As previously noted, the bank's AA has no LMI census tracts. While it is acknowledged that the AA contains LMI areas, a separate survey has not been conducted, either by the bank or another party to make these determinations. Therefore, a meaningful geographic distribution analysis to determine penetration in LMI areas could not be performed. The bank was not rated in this area.

Response to Complaints

No complaints regarding the bank's CRA performance have been received since the previous examination. Further, based on the fair lending portion of the examination, no violations of the substantive provisions of antidiscrimination laws and regulations were identified.

Community Development Loans and Services

As indicated previously, the bank has indirectly served LMI housing needs through the loan for the purchase and renovation of a 16-unit apartment complex.

The bank has established two ATM's in 1996. The first ATM was set up in May 1996 inside a D'Hanis convenience store. The second ATM was started in August 1996 inside a Hondo convenience store. The bank has been approved for a new branch building in Castroville. It will include a new drive-up 24 hour ATM. The bank did not previously have an ATM in Castroville. The decision to have the first two ATM's was largely influenced by a CRA needs assessment meeting between area bank representatives and community leaders in November 1995, which indicated a strong need for ATM's.