



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**October 2, 2006**

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

**Uvalde National Bank  
Charter Number 17733**

**727 East Main  
Uvalde, Texas 78802**

**Office of the Comptroller of the Currency  
San Antonio - North Field Office  
10101 Reunion Place Blvd., 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 the 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 COMMUNITY REINVESTMENT ACT (CRA) RATING: This institution is rated “Satisfactory.”**

Uvalde National Bank (UNB) meets the credit needs of its assessment area (AA) based on the following conclusions:

- Lending performance is satisfactory given the bank’s size, financial condition, and known credit needs in its assessment area.
- The loan-to-deposit ratio is reasonable and averaged 54% during the evaluation period.
- A large majority of UNB’s loans are within its assessment area.
- UNB has demonstrated an excellent willingness to extend loans to businesses of different sizes.
- There have been no complaints with respect to UNB’s CRA performance.

### **DESCRIPTION OF INSTITUTION**

UNB is a rural community bank located in the county seat of Uvalde County, in Uvalde, Texas. Total assets as of June 30, 2006 were \$31 million. Uvalde is located approximately 90 miles west of San Antonio, Texas. National American Bank was acquired by Texas Country Bancshares, Inc. (TCB) in October 2004, and the name was changed to Uvalde National Bank on August 24, 2006. TCB is a Texas holding company that owns four community banks. UNB maintains only one automated teller machine (ATM), located on the bank’s premises.

Competition is strong with other financial institutions located in Uvalde. With the acquisition by TCB in 2004, management’s strategy has been to focus on further developing customer relationships within the local community. This is the first CRA Performance Evaluation since the bank was purchased by TCB. There are no legal or other impediments that limit the bank’s ability to meet the credit needs of the assessment area.

The bank’s primary lending products are commercial real estate, commercial and agriculture loans. The loan portfolio comprises 58% of total assets, with 89% of the portfolio centered in the primary loan products. A summary of the bank’s loan portfolio is detailed on the following page.

<b>LOAN DISTRIBUTION AS OF JUNE 30, 2006</b>		
<b>Loan Type</b>	<b>Dollar Amount \$(000's)</b>	<b>Percent of Total Loans (%)</b>
<b>Commercial Real Estate</b>	<b>10,202</b>	<b>57</b>
<b>Commercial</b>	<b>3,413</b>	<b>19</b>
1-4 Family Residential	292	2
Consumer	1,070	6
<b>Agriculture</b>	<b>2,341</b>	<b>13</b>
Other	489	3
<b>Total Loans</b>	<b>17,807</b>	<b>100</b>

*Source: Bank Performance Report*

*We did not analyze the bank's lending to borrowers of different incomes due to consumer lending comprising only 6% of the total loan portfolio.*

## **DESCRIPTION OF ASSESSMENT AREA**

UNB designated Uvalde County and the eight counties that contiguously surround it as its assessment area (AA). The eight surrounding counties are Real, Bandera, Edwards, Kinney, Medina, Maverick, Zavala and Frio. The assessment area designated meets the requirements of the regulation and does not exclude any low- to moderate-income geographies, but is extremely large for management to reasonably service these communities. The bank's only office and one ATM are located in Uvalde County. Management is reasonably able to service this one county. Management's strategy is to service the local community in Uvalde. With its small loan officer staff, servicing the eight surrounding counties included in its designated assessment area is not reasonable. An adjustment should be made to the boundaries of its assessment area to include only those areas that management can be reasonably expected to serve.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ASSESSMENT AREA</b>	
<b><i>Population</i></b>	
Number of Families	42,178
Number of Households	53,058
<b><i>Geographies</i></b>	
Number of Census Tracts	35
% Low-Income Census Tracts	6%
% Moderate-Income Census Tracts	40%
% Middle-Income Census Tracts	54%
% Upper-Income Census Tracts	0%
<b><i>Median Family Income</i></b>	
2000 MFI for AA	38,726
2005 HUD-Adjusted MFI	44,714
2006 HUD-Adjusted MFI	44,714
<b><i>Economic Indicators</i></b>	
Unemployment Rate	3.61%
2006 Median Housing Value	55,091
% of Households Below Poverty Level	24%

*Source: 2000 U.S. Census data*

Based on year 2000 US Census data, the designated assessment area has a population of approximately 167 thousand. Twenty-four percent of households are below poverty level. There are 64 thousand housing units in the assessment area, with 17% vacant and 21% renter-occupied. There are 35 census tracts in the assessment area, with two census tracts designated as low-income and 14 census tracts as moderate-income. The two low-income census tracts are located in Maverick and

Zavala Counties, where the bank is not able to service the credit needs of these communities. This is a result of the assessment area designated being too large for this \$31 million bank to service. The local economy is primarily based on retail trade and services. The largest employers in the area are the Border Patrol, Uvalde Independent School District and the local hospital.

We met with a representative of an economic development office to gather more information on the needs of the community and the potential lending opportunities within the AA. We contacted the FUTURO organization (Families United Together Uniting Regional Opportunities). This organization administers a revolving loan fund, homeownership counseling, and packaging of loans for referral to financial institutions. This organization services Uvalde, Dimmit, Maverick, LaSalle and Zavala counties. According to our contact, there is a need for residential lending in the area, along with credit counseling. Out of 700 applicants who wanted to apply for mortgage loans since this organization was established, only 20 were qualified to refer to financial institutions. Credit problems were the main issue.

**Please refer to UNB’s CRA Public File for further information about the bank.**

**CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

Management is satisfactorily meeting the credit needs of its AA, specifically in Uvalde County, according to the random loan sampling we performed.

**Loan-to-Deposit Ratio**

UNB’s loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and credit needs in the assessment area. UNB’s loan-to-deposit ratio of 54% was the second highest ratio in the peer bank comparison. The acquisition of the bank by TCB in 2004 resulted in substantial run-off of both loans and deposits from out-of-area customers. This was expected with the bank’s change in strategy to a more traditional community bank rather than an Internet bank. A priority for management has been to develop deposit and lending relationships in the Uvalde market. Competition from other financial institutions in Uvalde County is strong and is challenging for management to win back customers.

<b>BANK NAME</b>	<b>TOTAL ASSETS (000’S)</b>	<b>AVERAGE LTD RATIO</b>
<i>Uvalde National Bank</i>	<i>30,843</i>	<i>54%</i>
The Hondo National Bank	86,697	60%
Dilley State Bank	47,949	23%
First State Bank of Uvalde	390,934	52%
Medina Valley State Bank	72,705	32%
Castroville State Bank	73,847	45%

## Lending in the Assessment Area

A majority of the bank's loans were originated within its assessment area, specifically Uvalde County. Our loan sample was performed on loans originated from the date TCB acquired the bank in October 2004, through June 30, 2006. Our analysis determined that 96% of total loans sampled, with 71% of the total dollar amount, were in the assessment area.

TOTAL LOANS REVIEWED								
	In Assessment Area				Out of Assessment Area			
Loan Type	#	%	\$	%	#	%	\$	%
Commercial	22	96%	963	71	1	4%	400	29

Source: Bank Data \$(000s)

Commercial Loans Include: Commercial, Agricultural, and Commercial Real Estate Loans

## Lending to Businesses of Different Sizes

Our loan sampling of UNB's loan portfolio reflects an excellent distribution to businesses of different sizes within the assessment area, specifically in Uvalde County. Our sample reflected that 91% of the loans to businesses with less than \$1 million in annual revenues were within UNB's assessment area. Although only 38% of the total dollars were to small businesses with less than \$1 million in annual revenues, this is mitigated by the number of small business loans originated. In addition, the loans to businesses with over \$1 million in annual revenues are primarily participations purchased from banks owned by TCB.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of Assessment Area Businesses	95%	5%
% of Bank Loans in Assessment Area #	91%	9%
% of Bank Loans in Assessment Area \$	38%	62%

Source: Bank Data

## Geographic Distribution of Loans

The geographic distribution of commercial loans reflects a reasonable dispersion throughout the assessment area. The bank's lending efforts are centered primarily in Uvalde County, where the bank is located. Census data shows 30% of businesses in the assessment area are in low- to moderate-income census tracts. Due to the bank's location and small lending officer staff, they are not able to meet the credit needs in the Maverick and Zavala counties where the only two low-income census tracts are located. Our analysis found 35% of the total loans sampled and 17% of the dollar amount were in moderate-income census tracts.

<b>COMMERCIAL</b>								
Census Tract Income Level	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
%of AA Businesses	<b>3%</b>		<b>27%</b>		<b>71%</b>		<b>0%</b>	
Loans By Year	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2004	0	0	43%	10%	57%	90%	0	0
2005	0	0	38%	5%	62%	95%	0	0
2006	0	0	25%	37%	75%	63%	0	0
Totals	0	0	35%	17%	65%	83%	0	0

Source: Bank Data

### **Responses to Complaints**

There were no CRA-related consumer complaints during the evaluation period of our review.

### **Fair Lending**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.