



## **PUBLIC DISCLOSURE**

May 05, 2014

### **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

**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**

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

- The bank's loan-to-deposit ratio (LTD) is reasonable given the institution's size, financial condition, assessment area credit needs and influx of deposits due to Eagle Ford Shale oil boom.
- The bank makes a substantial majority of its loans within 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.

## **SCOPE OF EXAMINATION**

We evaluated SNB's lending activities using Small Bank CRA Examination Procedures. The evaluation period for lending activity included loans originated between January 1, 2012 and March 31, 2014. We reviewed the bank's LTD ratio based on a quarterly average ratio since the previous CRA examination. We identified consumer loans and commercial loans as the bank's primary loan products for the evaluation period. We selected a sample of 20 commercial loans and 21 consumer loans for analysis.

## **DESCRIPTION OF INSTITUTION**

SNB is a \$109 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). Bank lobby and drive-through services are provided Monday through Friday and only drive-through services on Saturday. SNB offers a full range of deposit and loan products and services commensurate with its size, and focuses on commercial and consumer lending. Based on its financial condition, the local economy, product offerings, competition, business strategy, and prior performance, SNB has the ability to meet the various credit needs in its community. The bank is not a subsidiary of any holding company and does not have any significant subsidiaries or affiliates.

As of March 31, 2014, net loans of \$20.5 million represented 19.7 percent of SNB's total assets. A summary of the loan portfolio is as follows:

<b>Loan Portfolio Summary by Loan Product March 31, 2014</b>		
<i>Loan Category</i>	<i>Dollar Volume (000's)</i>	<i>% of Dollar Volume</i>
Commercial & Commercial Real Estate	7,916	38.5%
Consumer	5,984	29.1%
Agriculture/Farm	3,561	17.3%
Residential	2,337	11.4%
Other Loans	759	3.7%
<b>Total</b>	<b>20,557</b>	<b>100%</b>

*Source: March 31, 2014, Consolidated Report of Condition*

For the evaluation period, January 1, 2012 to March 31, 2014, the bank originated 951 loans of which 798 were consumer loans or 84 percent of loans originated.

SNB also originated 110 commercial loans, 21 agricultural loans, and 23 real estate loans during the evaluation period. Of the 23 real estate loans originated, seven were residential, six were farmland, and 10 were commercial real estate.

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 December 8, 2008, and the bank was rated "Satisfactory."

## **DESCRIPTION OF ASSESSMENT AREA(S)**

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 has only one census tract, and is designated moderate-income.

Cotulla, Texas, the county seat of La Salle County, is located in the southern region of Texas. The recent economic boom due to the exploration of the oil and gas on the Eagle Ford Shale play has greatly benefited the region around Cotulla and has opened the area to vast economic growth, new retail facilities, and improvements to local infrastructure. Drilling began in the Eagle Ford Shale in 2008 and has grown ever since. Over one-third of all the Eagle Ford Shale oil production is in La Salle County. This concentration of the oil and gas industry in the region has increased labor and housing demand, business development, traffic, and enhanced planning for the future growth of the area. SNB's competition comes primarily from regional banks making large commercial loans in the AA.

The population of the AA is approximately 6,886. The median housing value is \$39,600 and the median year built is 1971. The 2010 census data weighted-average median family income (MFI) for the AA is \$50,000. Please refer to the following chart for additional information on the economic and demographic characteristics of the AA.

<b>Demographics and Economic Characteristics of AA – La Salle County</b>	
<b><i>Population</i></b>	
Number of Families	1,323
Number of Households	1,872
<b><i>Geographies</i></b>	
Number of Census Tracts/BNA	1
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	100%
% Middle-Income Census Tracts/BNA	0%
% Upper-Income Census Tracts/BNA	0%
<b><i>Median Family Income (MFI)</i></b>	
Weighted Average MFI	\$35,352
Weighted Average of HUD updated MSA MFI	\$50,000
<b><i>Economic Indicators</i></b>	
Unemployed Labor	4.78%
Weighted Average of Median Housing	\$39,600
% Owner Occupied Housing	44.07%
% Households Below Poverty Level	24.89%

*Source: U.S. Census Data*

We conducted one community contact with a local government official. One of the greatest challenges facing Cotulla is housing the sudden inflow of workers flooding the region. He said the main credit needs of the community were affordable housing and home loans.

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

SNB demonstrated satisfactory performance in meeting the identified credit needs of its AA. The loan sample determined the extent of lending within the AA and distribution of loans by borrower income level.

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

The LTD ratio is reasonable given SNB's size, financial condition, and AA credit needs. During our review period, December 2007 through March 31, 2014, SNB's average quarterly LTD ratio was 29 percent. It ranged from 11 percent to 28 percent during that time. The last CRA examination dated December 8, 2008 revealed an LTD of 42%, and deposits have grown \$57.7 million in the same time. The average ratio for three similarly situated institutions from surrounding counties had a quarterly average LTD ratio of 21 percent.

Institution	County	Total Assets (000) (As of 03/31/14)	Average LTD Ratio
<i>Stockmens National Bank</i>	<i>La Salle</i>	<i>\$109,959</i>	<i>29%</i>
Zavala County Bank	Zavala	\$65,654	24%
Atascosa National Bank	Atascosa	\$91,622	21%
Dilley State Bank	Frio	\$125,623	19%

Source: Quarterly Consolidated Report of Condition Information

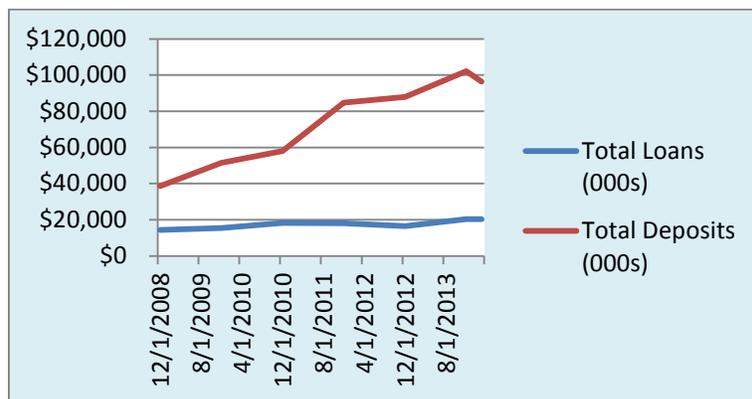
The following table shows the total loans, total deposits, and LTD for SNB since the last CRA examination.

	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	3/31/14
<b>Total Loans (000s)</b>	\$14,376	\$15,388	\$18,236	\$18,060	\$16,485	\$20,352	\$20,335
<b>Total Deposits (000s)</b>	\$38,702	\$51,497	\$58,068	\$84,677	\$87,827	\$102,215	\$96,414
<b>LTD Ratio</b>	37.15%	29.88%	31.40%	21.32%	18.77%	19.91%	21.09%

Source: Quarterly Consolidated Report of Condition Information

SNB and other surrounding area banks have had declining trends with their loan-to-deposit ratios. This is due to the rapid growth in the oil and gas industry with the Eagle Ford Shale and rapidly increasing deposit base from lease and production income. Total loans have increased in dollars; however, at a much slower rate than deposit dollars. See chart below:

The chart below shows that the SNB’s deposit base has increased at a more rapid rate; however, loans continue to grow in actual dollars.



**Lending in Assessment Area**

SNB extends a substantial majority of its loans to borrowers located in the AA. For our analysis, we used a random sample of each of the bank’s primary loan types including commercial, and consumer loans made during 2012 through March 2014. Of our total sample of 41 loans resulted in 100 percent of the number of loans was made to borrowers in the AA.

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

The distribution of borrowers reflects reasonable penetration among individuals of different income levels and businesses of different sizes.

Our sample of commercial loans made within the AA indicates an excellent distribution of loans to small businesses. Of the 20 commercial loans in our sample, 100 percent of the number was made to businesses with revenues less than \$1 million. This exceeds the 59 percent of AA businesses that reported income data having similar revenues.

Consumer lending activity reflects reasonable distribution of loans originated to borrowers with low- or moderate-income levels. 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 31 percent of the AA households, which are low-income. The bank’s lending performance is reasonable when considering moderate-income borrowers. Twenty-three percent of the consumer loans sampled was made to moderate-income borrowers, which exceeds the 22 percent of AA households that are moderate-income. The following table illustrates the distribution of these loans.

<b>Borrower Distribution of Consumer Loans in La Salle AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	31.36	4.76	22.12	23.18	14.80	28.57	31.73	42.86

*Source: Loan sample; U.S. Census data.*

**Geographic Distribution of Loans**

An analysis of loan distribution by geographic area would not be meaningful as the bank’s AA has only one census tract.

**Responses to Complaints**

SNB did not receive any CRA-related complaints during this evaluation period.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR. 25.28(c), or 12 CFR. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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