



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 22, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Community National Bank
Charter Number 17002**

**1502 Avenue M
Hondo, TX 78861**

**Comptroller of the Currency
San Antonio-North Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, Texas 78216-4160**

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.

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, Hondo, TX as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of October 22, 2001. 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 factors highlight the bank's performance:

- The loan-to-deposit ratio is more than reasonable given the bank's resources, the local credit needs, and local competition.
- The bank makes a substantial majority of its loans within the assessment area (AA).
- The distribution of borrowers reflects an excellent penetration among individuals of different income levels and businesses of different sizes.
- The bank's assessment area has no LMI census tracts. Therefore, the geographic distribution of the bank's loans is not rated.
- The bank has received no consumer complaints concerning its Community Reinvestment Act performance.

DESCRIPTION OF INSTITUTION

Community National Bank (CNB), a \$74 million institution, was chartered in 1981. The bank's

home office is located in Hondo, Texas and a branch office is located in Castroville, Texas. Both locations have drive-up facilities, and the bank also owns two automatic teller machines (ATM). One ATM is located at a Texaco convenience store in Hondo, Texas, and the other is located in front of the branch office in Castroville. The bank's primary product lines are business, residential mortgage and consumer loans. CNB is a subsidiary of Medina Community Bancshares, Inc., a one-bank holding company based in Hondo, Texas, with total assets of \$74 million as of June 30, 2001. CNB is the primary asset of the holding company.

On September 30, 2001, net loans comprised 57% of CNB's total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Composition As of September 30, 2001		
Loan Category	\$ (000)	%
Commercial Real Estate Loans	16,402	39
Commercial Loans	8,324	20
Farm Loans (Agricultural Production)	3,822	9
Residential Real Estate Loans	6,026	14
Consumer Loans	7,768	18
Total	42,342	100

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 done on October 8, 1996, and the bank was rated "Outstanding." There have been no changes in the bank's corporate structure.

DESCRIPTION OF ASSESSMENT AREA (AA)

The bank has defined Medina County as its AA. The AA meets the requirements of the Regulation. The reader should note that there are no low- and moderate-income census tracts in the bank's AA. The county is divided into seven block-numbering areas. Five are classified as middle-income, and two are classified as upper-income. The distribution of families by income levels in the AA is 23% low-income, 14% moderate-income, 20% middle-income, and 43% upper-income.

The county's largest cities are Hondo, the county seat, and Castroville. Economic conditions are currently stable. The economy of Medina is largely dependent upon farming, ranching, and real estate. Located in or near Hondo are a minimum security prison employing 375 workers and a 500-bed drug abuse rehabilitation unit employing 125 workers. This makes the Texas Department of Corrections the county's largest employer. Additional demographic and economic characteristics of the AA are presented in the following table.

CNB's competition consists of six independent community banks and branches of another bank headquartered outside the AA.

This office conducted two community contacts in CNB's AA. One person is an attorney and real

estate developer in Castroville, and the other is an executive with the Hondo Chamber of Commerce. Credit needs identified by one contact included consumer and residential mortgage loans. The second contact identified a need for consumer and small business loans. Both contacts were favorable in their comments about the performance of CNB and its participation in the community.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	7,252
Number of Households	9,904
Geographies	
Number of Census Tracts/BNAs	7
% Low-Income Census Tracts/BNAs	0
% Moderate-Income Census Tracts/BNAs	0
% Middle-Income Census Tracts/BNAs	71
% Upper-Income Census Tracts/BNAs	29
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
2001 HUD-Adjusted MFI	\$35,800
2000 HUD-Adjusted MFI	\$34,700
1999 HUD-Adjusted MFI	\$33,900
1998 HUD-Adjusted MFI	\$32,200
Economic Indicators	
Unemployment Rate-AA August 2001	3.9%
Unemployment Rate-State August 2001	5.0%
Unemployment Rate-National August 2001	4.9%
2001 Median Housing Value	\$47,158
% of Households Below Poverty Level	21%

SAMPLING INFORMATION

Our review focused on CNB's three main product lines: commercial loans, residential mortgage, and consumer loans. In each of the three main product lines, we sampled 20 loans where the bank collected income information. For the *Lending to Borrowers of Different Incomes*, *Lending to Businesses of Different Sizes* and *Geographic Distribution of Loans* analyses, we omitted the loans made outside of the AA and added loans to get to the minimum sample size of 20 loans per product line. All loans sampled were originated between November 1, 1996 and September 30, 2001.

CONCLUSIONS ABOUT 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

CNB's LTD ratio is more than reasonable when compared to other community banks in Medina County. The bank ranks at the top with three other banks with high average LTD ratios. These figures do not include branches of community banks headquartered outside the AA. Refer to the table below.

Institution	Assets as of 6/30/01 (000s)	Average LTD Ratio 12/31/97 - 6/30/01
Community National Bank	\$74,578	56%
D'Hanis State Bank	25,961	56%
The Hondo National Bank	42,780	56%
Castroville State Bank	53,105	42%
The Bank of Texas	38,183	38%
Medina Valley State Bank	63,327	38%
The La Coste National Bank	23,572	23%

CNB's actual LTD ratio has increased since 1996. From December 31, 1996 to September 30, 2001, the LTD ratio increased 16%. Over the same period the volume of net loans increased from \$28.8 million to \$41.7 million, an increase of 45%. And total deposits increased from \$49.6 million to \$62.6 million, an increase of 26%. Selected quarter end data is presented below.

Date	Total Deposits (000s)	Net Loans (000s)	LTD Ratio
September 30, 2001	62,554	41,733	67%
December 31, 2000	68,169	42,042	62%
December 31, 1999	68,476	37,330	55%
December 31, 1998	69,364	34,418	50%
December 31, 1997	63,683	34,310	54%
December 31, 1996	49,580	28,845	58%

Lending in Assessment Area (AA)

A substantial majority of the bank's lending-related activities are within the AA. From our sample we determined that 90% of loans by number (or 84% by dollar volume) are made to borrowers located within the AA. The most current internally generated report showed that 80% of loans originated between November 1, 1996 and September 30, 2001 were to borrowers residing within the AA. The results of our sample suggest this report is accurate. The following table shows the bank's lending activities in and out of the AA by type of loan sampled.

Total Loans Reviewed								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential RE	19	95	1,064	88	1	5	141	12
Commercial and Commercial RE	18	90	1,522	81	2	10	346	19
Consumer	17	85	66	82	3	15	15	18
Total Reviewed	54	90	2,652	84	6	10	502	16

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

CNB demonstrates excellent penetration when lending to businesses of different sizes and to individuals with different income levels. A sample of 20 combined commercial and commercial real estate loans, 20 residential mortgages, and 20 consumer loans made within the AA were used for this evaluation. Each of these loan products was equally considered in the overall rating for this assessment factor. The loans were originated during the same review period as above.

The wide distribution of loans to borrowers with varying income levels reflects favorably on the bank's lending activities. The following tables summarize the distribution of CNB's lending for residential real estate and consumer loans. Our sample did not contain any loans for residential real estate to low income borrowers. However, management's internal analysis identified five residential loans to low income borrowers that originated in the past three years. These five loans represent 6% of the bank's residential loan originations during that timeframe.

Distribution of Borrowers by Income Level Residential Real Estate								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	23		14		21		42	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2001	0	0	5	1	0	0	20	37
2000	0	0	5	1	0	0	10	8
1999	0	0	0	0	0	0	20	23
1998	0	0	0	0	10	4	10	9
1997	0	0	5	3	5	1	10	13
Total	0	0	15	5	15	5	70	90

Distribution of Borrowers by Income Level Consumer								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Household	23		14		17		46	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2001	25	25	0	0	0	0	0	0
2000	10	8	15	19	5	13	0	0
1999	10	2	5	1	0	0	0	0
1998	5	15	5	2	0	0	10	6
1997	0	0	5	2	0	0	5	9
Total	50	49	30	23	5	13	15	15

CNB made the majority of its business loans to businesses with gross annual revenues of less than \$1 million. The following table illustrates the lending distribution to businesses located within the bank's AA. A small business is defined as a business with annual revenues of less than \$1 million.

Borrower Distribution Of Small Loans To Businesses (Non-Farm)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	94	6
% of Bank Loans in AA #	90	10
% of Bank Loans in AA \$	76	24

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 into LMI areas could not be performed. The bank was not rated in this area.

Responses to Complaints

Community National Bank has not received any complaints during this evaluation period. The bank did receive favorable public comments from business and civic organizations during this evaluation period.

Fair Lending Review

We found no violations of anti-discrimination laws. An analysis of public comments and complaints from 1997 through 2001, along with the results of the most recent fair lending examination conducted in 1999, suggest the bank has a strong record of complying with anti-discrimination laws.