



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 27, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Uvalde National Bank
Charter Number 17733

727 E. Main Street
Uvalde, TX 78801

Office of the Comptroller of the Currency

San Antonio - North Field Office
10001 Reunion Place, Suite 250
San Antonio, TX 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 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 CRA RATING: "This institution is rated Satisfactory."

Uvalde National Bank's (UNB) lending performance meets the standards for satisfactory performance in meeting the known credit needs of its community.

- The bank's quarterly loan-to-deposit (LTD) ratio of 76% is above average. UNB's LTD is outstanding considering the rural location, limited lending opportunities, and asset size of the bank.
- The majority of loans were made within the bank's assessment area (AA). Approximately 88% of the dollar volume of loans was to borrowers within the AA.
- UNB demonstrates a willingness to lend to commercial businesses of different sizes. According to the sample, 95% of loans to businesses are made to those with revenues below \$1 million. Additionally, the bank has a reasonable penetration of loans to low- to moderate-income (LMI) households.
- UNB has not received any complaints or public comments regarding its performance under the Community Reinvestment Act (CRA) during this evaluation period.

SCOPE OF EXAMINATION

UNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. The bank's two largest loan products as of September 30, 2010, were commercial and residential real estate. However, consumer loans were sampled in place of residential due to the number volume of loans originated in this category. According to dollar volume, residential real estate is the bank's second largest loan product, but the bank has originated only two residential real estate loans in 2010. Consumer loans are more representative of the bank's lending strategy.

The commercial and consumer lending test for UNB covers its performance from January 1, 2008, through December 6, 2010, and is representative of its lending strategy since the last CRA examination dated October 2, 2006.

DESCRIPTION OF INSTITUTION

UNB is an intrastate bank headquartered in Uvalde, Texas. Assets totaled approximately \$35 million as of September 30, 2010. The bank is wholly owned by Texas Community Bancshares, Inc. (TCB), which purchased the bank in late 2004. TCB also owns the First National Bank of Ballinger and the Brady National Bank. UNB has one full-service location, which offers an automated teller machine (ATM) and drive-through banking services. UNB also maintains an ATM at Southwest Texas Junior College in Uvalde, TX.

There are no legal, financial, or other factors hindering the bank's ability to help meet the credit needs in its AA. The previous CRA examination is dated October 2, 2006, and UNB was rated "Satisfactory" under the small bank criteria.

As of September 30, 2010, loans totaled \$25 million, which is 71% of total assets. A summary of the loan portfolio is noted on the following page:

Loan Portfolio Summary by Loan Product September 30, 2010		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial (Including Real Estate)	13,719	55.29%
Residential	6997	28.20%
Consumer	3145	12.67%
Agricultural/Farm	833	3.36%
Other Loans	119	0.48%
Total	24,813	100%

UNB offers standard deposit and loan products. Personal account options include free checking, NOW, and money market accounts. In addition, UNB offers a Five Star Club Account, which provides customers with the NOW account interest rate on their checking account balance with a minimum balance of \$250 and a \$5 monthly fee. The bank also offers standard savings and time accounts including an Individual Retirement Account. Available products and services include debit and ATM cards, gift cards, telephone banking, safe deposit boxes, and Internet banking. Internet banking gives customers instant access to their account balances, funds transfers, and bill pay.

DESCRIPTION OF ASSESSMENT AREA(S)

The CRA requires a financial institution to define the AA in which it will be evaluated. UNB has one AA consisting of Uvalde, Real, Edwards, Kinney, Maverick, Zavala, and Frio counties. The AA includes twenty-five census tracts ranging from low- to middle-income. Maverick County is the most densely populated with 53 thousand residents according to the 2009 Census. Uvalde County is the second largest, with a population of 27 thousand. See the table below for demographic information.

Demographic Information for Uvalde National Bank Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	25	8	56	36	0
Population by Geography	109,663	7	59	34	0
Owner Occupied Housing Units by Geography	23,657	7	53	40	0
Businesses by Geography	5,437	5	47	48	0
Farms by Geography	344	4	24	72	0
Family Distribution by Income Level	26,761	7	56	37	0
Household Distribution by Income Level	33,108	10	60	30	0
Summary Statistics					
Census Median Family Income (MFI)		26,354	Median Housing Value	43,725	
HUD – Adjusted MFI: 2009		26,354	Households Below the Poverty Level	30%	
HUD – Adjusted MFI: 2008		26,354	Unemployment Rate	4.3%	
HUD – Adjusted MFI: 2007		26,354			

The AA is located within close proximity to the San Antonio, Texas, metropolitan statistical area (MSA). UNB operates in a rural area with a fair amount of competition. Economic conditions within the AA continue to be worse than the national economy. According to 2009 statistics, 14% of Americans lived in poverty while 30% of households in the AA are below the poverty level. The majority of the 33 thousand households are considered to be of the moderate-income level.

According to US Bureau of Labor statistics, the November 2010 unemployment rate for the nation was 9.8%, and unemployment for the state of Texas was 8.2%. Unemployment rates in UNB’s AA are well below national and state averages at 4.3%. However, the area has been seeing cut-backs and lay-offs.

Service, retail trade, construction, and transportation are among the AA largest industries. According to management, most business is concentrated in the trucking and mining industries in Uvalde. Of the 5,437 businesses, 88% are single location businesses with their sole operations located within the AA. The majority of businesses (72%) have revenues below \$1 million.

In conducting the assessment of the bank’s CRA performance, we contacted two members of local community government. One contact stated that the area’s economy has been negatively affected as a result of the drug wars in Mexico. Fewer people are traveling to Mexico, and thus, are not driving through the area and stopping for gas or food. Previously, this resulted in a lot of income for the area. The other contact stated that real estate transactions were down significantly from the year before. Therefore, there were fewer lending opportunities. Both contacts expressed optimism that the economy will rebound in the near future. However, neither contact was aware of community development initiatives in which the bank could participate.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Lending Test

UNB’s performance under the lending test is satisfactory considering the performance context and needs of its AA.

Loan-to-Deposit Ratio

The LTD has been averaged over the past 16 quarters (since the last CRA examination). The LTD for UNB averaged to 75.84%, and has remained fairly steady over the previous quarters. To assess UNB’s performance, we compared it with three other similarly situated banks. LTD ratios ranged from 22.65% to 71.37% with the average of all four institutions being 53.75%. Dilley State Bank represents the lowest LTD ratio. The institution is the most similar in size. However, the other two banks are more similar in community profile as they are located in Uvalde, Texas. UNB’s LTD is outstanding considering the rural location, limited lending opportunities, and asset size. The bank is meeting the needs of its community.

INSTITUTION	ASSETS (000s) As of 8/12/2010	AVERAGE QUARTERLY LTD RATIO As of 8/12/2010
Dilley State Bank	\$73,410	22.65%
The Hondo National Bank	\$136,554	71.37%
First State Bank of Uvalde	\$613,653	45.15%
Uvalde National Bank	\$34,460	75.84%

Lending in Assessment Area

The majority of number and dollar amount of loans were made within the AA. Out of the first 20 loans reviewed in the consumer sample, only two were found to be out of the bank’s AA. The commercial sample resulted in a penetration of 85% within the AA. A total dollar volume of \$1.4 million loans were reviewed in both samples. About 52% of the dollar amount of loans was inside the AA. However, this was skewed by one large loan that was outside the AA. Overall, UNB is doing an excellent job allocating their lending with their AA. The following table illustrates the results of our analysis.

Lending in Uvalde-Real-Edwards-Kinney-Maverick-Zavala-Frio Counties AA										
<i>Loan Type</i>	<i>Number of Loans</i>					<i>Dollars of Loans</i>				
	<i>Inside</i>		<i>Outside</i>		<i>Total</i>	<i>Inside</i>		<i>Outside</i>		<i>Total</i>
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	
Consumer	18	90	2	10	20	237,489	94	14,861	6	252,350
Commercial	17	85	3	15	20	501,160	43.12	661,034	56.88	1,162,194
Totals	35	87.5	5	12.5	40	738,649	52.22	675,895	47.78	1,414,544

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

Consumer Loans

The distribution of consumer loans reflects reasonable penetration among borrowers of different income levels. Based on our loan sample, lending to low-income borrowers is below demographic data. Loans originated to moderate-income borrowers is also slightly below demographic data. Overall, 20% of loans in the sample were made to LMI families, but LMI families represent 52.14%. Many LMI families can not meet the credit standards of the bank, and lending to such consumers could negatively affect the bank’s safety and soundness. UNB is satisfactorily meeting credit needs of consumers within the AA.

The following table details the bank’s performance as compared to the percentage of households in each census tract income level.

Borrower Distribution of Consumer Loans In Uvalde-Real-Edwards-Kinney-Maverick-Zavala-Frio Counties AA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>
Consumer Loans	34.05%	5%	18.09%	15%	17.37%	25%	30.50%	55%

Commercial Loans

The distribution of loans to businesses reflects excellent penetration among small businesses. Based on our sample, the vast majority of the number and dollar volume of loans were made to businesses with revenues below \$1 million. Only 5% of loans were made to businesses with revenue of over \$1 million while 95% of loans were originated to small businesses. This is excellent compared to demographic data which indicates about 71.2% of business in the AA are small businesses.

Borrower Distribution of Loans to Businesses In Uvalde-Real-Edwards-Kinney-Maverick-Zavala-Frio Counties AA				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unavailable/ Unknown</i>	<i>Total</i>
% of AA Businesses	71.22	2.45	26.34	100%
% of Bank Loans in AA by #	95%	5%		100%
% of Bank Loans in AA by \$	94.72%	5.28%		100%

Geographic Distribution of Loans

The geographic distribution of loans to LMI areas within the AA is reasonable and meets the standards or satisfactory performance.

UNB’s performance in lending to consumers within LMI census tracts is reasonable. Demographics show 6.9% of households are located in a low-income census tract, but the bank had zero loans to households within these tracts. However, the sample showed 50% of loans were made to borrowers located in a moderate-income tract. Demographics data show 54% of households are located in a moderate-income tract. The bank’s lending is representative of the area’s demographic data, and meets the standards for reasonable performance.

Geographic Distribution of Consumer Loans In Uvalde-Real-Edwards-Kinney-Maverick-Zavala-Frio Co AA								
<i>Census Tract Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>
Consumer Loans	6.9	0	54.11	50%	38.99	50%	0	0

The bank’s performance in lending to businesses within LMI level census tracts is reasonable. According to our sample, 35% of loans to businesses were made in moderate-income census tracts. This is below demographic data, but considered a reasonable penetration. No loans were found in our sample to businesses in low-income tracts, but only 5% of businesses are located in said tracts. Detailed information is included in the table below.

Geographic Distribution of Loans to Businesses In Uvalde-Real-Edwards-Kinney-Maverick-Zavala-Frio Counties AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/F arms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans
Commerical	4.45	0%	47.49	35%	48.06	65%	0	0%

Responses to Complaints

UNB has received no complaints in response to their CRA performance.

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.