



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**February 15, 2007**

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

**Kleberg First National Bank of Kingsville  
Charter Number 12968**

**100 East Kleberg Avenue  
Kingsville, TX 78364**

**Comptroller of the Currency  
San Antonio South  
10101 Reunion Place Boulevard Suite 402  
San Antonio, TX 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”.**

Kleberg First National Bank of Kingsville (KFNB) lending performance reflects satisfactory response to community credit needs, including low- and moderate-income individuals and geographic areas. Factors supporting the overall rating include:

- The average quarterly loan-to-deposit ratio of 78 percent over the past eighteen quarters is reasonable given the asset size, financial condition, and market focus of the bank.
- A majority of loans are originated within the assessment area (AA). Indirect auto dealer loans comprise the primary consumer loan product and represent approximately 30 percent of the total loan portfolio at December 31, 2006. Our sample indicated 83 percent of both the number and dollar volume of these loans originated within the bank’s AA.
- The distribution of borrowers reflects satisfactory penetration among individuals of different income levels with a strong penetration of loans to small businesses.
- The geographic distribution of loans reflects reasonable dispersal throughout the entire AA.

## DESCRIPTION OF INSTITUTION

KFNB, a community bank, is located in Kingsville, Texas (Kleberg County), approximately 50 miles southwest of Corpus Christi, Texas (Nueces County). KFNB is retail-oriented with its primary market focus on consumer lending, specifically indirect dealer loans for new and used vehicles. The following table depicts the composition of the loan portfolio at December 31, 2006.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Consumer Loans	80,209	55
Residential Real Estate Loans	24,373	17
Commercial Real Estate Loans	22,632	15
Commercial Loans	11,452	8
Agricultural Loans	7,627	5
<b>Total</b>	<b>146,293</b>	<b>100%</b>

On February 15, 2007, the bank had one main office, six branches, one drive-in facility, and eleven automated teller machines (ATMs). Five branches are located in grocery stores (HEB) and one branch is located in the Kingsville Wal-Mart. Four of the HEB branches are in Corpus Christi. All branches are open seven days a week with convenient banking hours. The main office and drive-in facility are open Monday through Friday, and offer banking hours similar to other businesses located in downtown Kingsville.

At December 31, 2006, KFNB had total assets of \$223.5 million. Net loans totaled \$146 million and represented 65 percent of total assets. Based on its financial condition, product offerings, and prior performance, KFNB has the ability to meet credit needs in its AA. We assigned a “satisfactory” rating at the previous CRA evaluation dated August 19, 2002. We did not identify any legal or other impediments that limit the ability of KFNB to meet credit needs in its AA.

KFNB is a wholly owned subsidiary of Kleberg Delaware, Inc., which is wholly owned by Kleberg and Company Bankers, Inc. The holding company purchased First Commerce Bank (FCB) of Corpus Christi on January 7, 2007. However, FCB did not merge with KFNB until February 16, 2007. We did not evaluate the CRA performance of FCB during this examination. The merger resulted in total combined assets of approximately \$320 million, and added three additional branches in Nueces County. The Federal Deposit Insurance Corporation (FDIC) evaluated the CRA performance of FCB as of December 3, 2003, and rated it “satisfactory”.

## DESCRIPTION OF ASSESSMENT AREA (AA)

KFNB’s AA includes Kleberg County (non-metropolitan area) and Nueces County (metropolitan area). The counties are located adjacent to each other. We evaluated performance separately for each county due to significant differences in demographic information, notably increased housing costs and adjusted median family income in Nueces County. The following table provides additional information for each county.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>		
	<i>Kleberg County</i>	<i>Nueces County</i>
<i>Population</i>		
Number of Families	7,829	80,043
Number of Households	10,918	110,316
<i>Geographies</i>		
Number of Census Tracts/BNA	5	64
% Low-Income Census Tracts/BNA	0 %	12.50 %
% Moderate-Income Census Tracts/BNA	20 %	23.44 %
% Middle-Income Census Tracts/BNA	80 %	35.94 %
% Upper-Income Census Tracts/BNA	0 %	28.13 %
<i>Median Family Income (MFI)</i>		
2000 MFI for AA	\$ 36,380	\$ 40,856
2003 HUD-Adjusted MFI	\$ 41,200	\$ 45,700
2004 HUD-Adjusted MFI	\$ 42,000	\$ 46,800
2005 HUD-Adjusted MFI	\$ 42,000	\$ 46,800
2006 HUD-Adjusted MFI	\$ 43,100	\$ 48,200
<i>Economic Indicators</i>		
Unemployment Rate	4.65 %	3.47 %
2006 Median Housing Value	\$ 52,385	\$ 71,969
% of Households Below Poverty Level	26 %	17 %

### **Kleberg County**

The Kleberg County AA includes the cities of Kingsville, Ricardo, Rivera, Loyola Beach, and surrounding communities. Kleberg County consists of one moderate-income and four middle-income census tracts. They have no low- or upper-income census tracts. The AA designation meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Based on June 30, 2006 data from the FDIC's Summary of Deposits, Market Share Report for Kleberg County, KFNB was ranked first of six banks with a 61 percent deposit market share in the AA. Competition comes from branch offices of other much larger or much smaller banks.

Principal industries in Kleberg County include services and retail trade. Major employers include the Naval Air Station, the local university, and the hospital. The Hoescht Celanese plant located five miles from Kingsville, but in neighboring Nueces County, had been a major employer in the past, but recently reduced its workforce.

Economic conditions continue to improve. While population growth has been limited over the past five years, the total workforce has increased about 40 percent due to workers commuting from the Corpus Christi area. Activities at the naval base, such as airplane-related testing and repair work, also helped to increase workforce numbers. Several new businesses such as Chili's Restaurant, Starbucks, and an insurance call center opened recently. Residential construction is increasing with at least five new subdivisions in development.

We contacted a local nonprofit economic development official who indicated that construction lending (residential and commercial) were the major credit needs in the community. The contact indicated that due to the resurgence of residential construction, experienced contractors and workers are difficult to find. The contact also indicated that residential development and construction projects should provide additional opportunities for local banks.

The contact indicated that Kleberg First National Bank is the dominant financial institution in Kingsville. They further stated that the local area headquartered institutions have done a good job in meeting the needs of the community, but the larger non-local institutions are generally less active and are usually not interested in sharing a project (participating a loan) with other institutions.

### **Nueces County**

KFNB added Nueces County to its AA in 2003 and opened its first branch in Corpus Christi. This AA designation meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income census tracts.

The 2000 census changed the demographics of Nueces County resulting in the addition of San Patricio County and Aransas County to the Corpus Christi Metropolitan Area (CCMA). A majority of deposit and loan activities originate in Kleberg or Nueces County, therefore, the board and management did not include San Patricio or Aransas County in the AA.

Competition for loan and deposit customers is strong in the AA. The strongest competition comes from branch offices of mid-sized and large/multinational banks. The major competitors for both loans and deposits are American Bank, N.A., Bank of America, Wells Fargo Bank, N. A., and Frost National Bank. Except for American Bank, N.A., these institutions have headquarters outside of the AA. Other competition comes from the numerous credit unions and mortgage companies that also serve the area.

Based on June 30, 2006 data from the FDIC's Summary of Deposits, Market Share Report for Nueces County, KFNB was ranked 16<sup>th</sup> of 19 banks and had a deposit market share of 0.22 percent in the AA.

The population for Nueces County increased from 291 thousand reported at the 1990 census, to 314 thousand at the 2000 census. Population growth since the 2000 census has been modest. Nueces County contains 64 census tracts including 8 that are designated as low-income, 15 moderate-income, 24 middle-income, and 17 upper-income census tracts.

The economy is stable and relatively diversified with employment sources from key industries

including oil and gas, local government, health care, and area military installations. The largest employers include the Corpus Christi Independent School District, the City of Corpus Christi, the Christus Spohn Medical System, and the U.S. Army Depot.

We reviewed two community contacts conducted during recent examinations of other banks in this county. The contacts indicated that primary needs included affordable housing programs and loans for small businesses. Both contacts indicated opportunities to invest in community development exist in the Corpus Christi area. Both contacts indicated area banks generally meet the credit needs of the community.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

KFNB demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the bank's primary loan products including consumer loans (indirect dealer loans for new/used vehicles and other consumer loans), small business loans, and residential loans. We selected a sample of these loan products in each county to determine the extent of lending within the AA and the distribution of loans by borrower income level and geography throughout the AA. We based our findings for the following factors on that sample.

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

KFNB's loan-to-deposit (LTD) ratio is reasonable and meets the standards for satisfactory performance, given its asset size, financial condition, and lending opportunities in the AA. Since the prior CRA examination, the LTD ratio has increased from 67 percent at June 30, 2002, to 75 percent at December 31, 2006. The average LTD ratio over the past 18 quarters was 78 percent, which exceeds the 63 percent average reported at the prior evaluation.

In prior evaluations, we noted that a locally owned state bank provided the main competition in Kleberg County. However, a financial institution headquartered outside the county purchased this bank. We did not identify any similarly situated financial institutions in Kleberg County. None of the institutions in Kingsville has headquarters in Kleberg County. And two of the five institutions have much larger total assets than KFNB, and have numerous branches located outside the county. The remaining three institutions have fewer total assets and branches located outside the AA of KFNB.

### **Lending in Assessment Area**

KFNB meets the standards for satisfactory performance with a majority of loans originating in the AA. We reviewed a sample of residential, consumer, and business loans that originated since the previous evaluation. The consumer loan sample included indirect dealer loans for new and used vehicles. The following table reflects the distribution of loans, by number and dollar volume, in and out of the AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	35	85.50	2,144	88.53	5	12.50	278	11.47
Consumer	33	82.50	581	83.36	7	17.50	116	16.64
Small Business	33	86.84	1,360	89.32	5	13.16	163	10.68
Total Reviewed	118	85.59	4,085	88.01	17	14.41	556	11.99

Source: loan sample.

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

Overall, KFNB demonstrates a satisfactory distribution of loans to borrowers of different incomes, and a strong distribution of loans to businesses of different sizes. We used samples in Kleberg County and Nueces County to evaluate performance for consumer loans, residential loans, and business loans. The following narratives and tables document our findings.

### Consumer Loans

KFNB demonstrates satisfactory distribution of consumer loans to borrowers of different income levels. In Kleberg County, approximately 44 percent of the households have low- or moderate-income levels. We found 40 percent of the loans in our sample originated to low- or moderate-income borrowers. In Nueces County, 40 percent of the households have low- or moderate-income levels. We found 30 percent of the sampled loans originated to low- or moderate-income borrowers. The following tables reflect the results of our consumer loan samples.

CONSUMER – Kleberg County								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	31.00		12.62		17.11		39.27	
	% of Number	% of Amount						
	5.00	0.71	35.00	22.94	25.00	27.02	15.00	45.20

Source: loan sample; U.S. Census data.

CONSUMER – Nueces County								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	24.59		15.72		17.73		41.95	
	% of Number	% of Amount						
	5.00	0.78	25.00	33.11	20.00	14.00	50.00	52.11

Source: loan sample; U.S. Census data.

## Residential Loans

Based on our sample, KFNB demonstrates weak performance in the distribution of residential loans to low- and moderate-income individuals. Our analysis of residential lending activity reflected percentages lower than those reported in the demographic data for both low- and moderate-income families. Households that fall below the poverty level represent 26 percent of the total households in Kleberg County, and 17 percent of the total households in Nueces County. The level of annual income based on the 2006 HUD-adjusted median family income for low-income households is less than \$21,550 in Kleberg County, and less than \$24,100 in Nueces County. These low levels could inhibit potential borrowers from qualifying for residential loans as the 2006 median housing value is \$52 thousand in Kleberg County and \$72 thousand in Nueces County. The following tables reflect the results of our residential loan samples.

RESIDENTIAL REAL ESTATE – Kleberg County								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	28.01		15.88		17.59		38.52	
	% of Number	% of Amount						
	0.00	0.00	5.00	2.15	15.00	4.88	80.00	92.97

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

RESIDENTIAL REAL ESTATE – Nueces County								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	22.72		16.60		19.41		41.27	
	% of Number	% of Amount						
	0.00	0.00	5.00	1.11	10.00	4.99	85.00	93.90

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

## Business Loans

KFNB demonstrates strong distribution of loans to small businesses. In Kleberg County, we found that 90 percent of business loans in our sample originated to businesses with annual revenues less than \$1 million. In Nueces County, we found that 100 percent of the loans in our sample originated to businesses with annual revenue less than \$1 million.

In making the comparison, we noted that almost 36 percent of the businesses in Kleberg County and 28 percent of the businesses in Nueces County did not report revenue information. The following tables compare the loan sample to the percentage of businesses in the AA.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES – Kleberg County		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *	61.38	3.03
% of Bank Loans in AA #	90.00	10.00
% of Bank Loans in AA \$	93.83	6.17

Source: Loan sample; Dunn and Bradstreet data. \* 35.59% of AA businesses did not report revenue data.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES – Nueces County		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *	67.10	4.64
% of Bank Loans in AA #	100.00	0.00
% of Bank Loans in AA \$	100.00	0.00

Source: Loan sample; Dunn and Bradstreet data. \* 28.26% of AA businesses did not report revenue data.

## Geographic Distribution of Loans

Overall, KFNB demonstrates satisfactory performance in the geographic distribution of loans. The following narratives document our findings.

### Consumer Loans

KFNB demonstrates strong geographic distribution of consumer loans in Kleberg County. There are no low-income census tracts in this county. The percentage of loans in moderate-income tracts exceeds the percentage of households located in those tracts. In addition, the middle-income census tracts are included on the 2006 list of “distressed” census tracts due to the poverty levels in these tracts. As such, KFNB receives positive consideration for originating loans in these tracts. In Nueces County, KFNB demonstrates satisfactory performance in the geographic distribution of consumer loans. The following tables provide documentation of our findings.

CONSUMER – Kleberg County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.00		18.73		81.27		0.00	
	% of Number	% of Amount						
	0.00	0.00	20.00	15.30	80.00	84.70	0.00	0.00

Source: loan sample; U.S. Census data.

CONSUMER – Nueces County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	7.02		24.83		37.40		30.75	
	% of Number	% of Amount						
	15.00	22.83	0.00	0.00	35.00	30.27	50.00	46.89

Source: loan sample; U.S. Census data.

### Residential Loans

KFNB demonstrates adequate geographic distribution of residential loans in Kleberg County. There are no low-income census tracts in this county. The percentage of loans in moderate-income tracts is less than the percentage of households located in those tracts. However, as previously noted, the middle-income census tracts are included on the 2006 list of “distressed” census tracts due to the poverty levels in these tracts. As such, KFNB receives positive consideration for originating loans in the tracts. In Nueces County, KFNB demonstrates satisfactory performance in the geographic distribution of loans. The following tables provide documentation of our findings.

RESIDENTIAL REAL ESTATE – Kleberg County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0.00		57.90		48.20		0.00	
	% of Number	% of Amount						
	0.00	0.00	10.00	4.08	90.00	95.92	0.00	0.00

Source: loan sample; U.S. Census data.

RESIDENTIAL REAL ESTATE – Nueces County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	4.68		24.99		35.81		34.52	
	% of Number	% of Amount						
	5.00	2.39	15.00	11.67	35.00	29.40	40.00	53.94

Source: loan sample; U.S. Census data.

### Business Loans

KFNB demonstrates strong geographic distribution of business loans in Kleberg County. There are no low-income census tracts in this county. The percentage of loans in moderate-income tracts exceeds the percentage of businesses located in those tracts. As noted previously, the middle-income census tracts are included on the 2006 list of “distressed” census tracts due to the poverty levels in the tracts. As such, KFNB receives positive consideration for originating loans

in the tracts. In Nueces County, KFNB demonstrates satisfactory performance in the geographic distribution of loans. The following tables provide documentation of our findings.

BUSINESS LOANS – Kleberg County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0.00		21.74		78.26		0.00	
	% of Number	% of Amount						
	0.00	0.00	33.33	27.40	66.67	72.60	0.00	0.00

*Source: loan sample; Dunn and Bradstreet data.*

BUSINESS LOANS – Nueces County								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	13.25		24.71		34.80		27.24	
	% of Number	% of Amount						
	11.11	6.44	16.67	8.99	22.00	18.10	38.89	66.47

*Source: loan sample; Dunn and Bradstreet data.*

### **Responses to Complaints**

KFNB has not received any consumer complaints related to its CRA performance during this evaluation period.

### **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.