



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**April 22, 2002**

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

**Stockmens National Bank in Cotulla  
Charter Number 14302**

**206 N. Main Street  
Cotulla, TX 78014**

**Comptroller of the Currency  
San Antonio-North Field Office  
10101 Reunion Place Boulevard, Suite 402  
San Antonio, TX 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 Stockmens National Bank, Cotulla, Texas as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of December 31, 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**.

Stockmens National Bank's (SNB) lending performance reflects a strong response to community credit needs. Factors in our assessment include:

- The bank's loan-to-deposit ratio is reasonable when compared with similarly situated financial institutions and 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 loans reflects an excellent penetration among individuals of different income levels and among businesses and farms of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the AA.
- There are no consumer complaints with respect to the bank's CRA performance.

## DESCRIPTION OF INSTITUTION

Stockmens National Bank (SNB) in Cotulla, a \$35 million financial institution founded in 1904, is the only bank headquartered in the AA. The locally owned bank is located in Cotulla, Texas and has no branches. SNB is a full service bank and operates one drive-up facility and owns one automatic teller machine (ATM). The ATM is located at the Brush Travel Truck Stop on IH35. Management and the Board emphases are on loans to businesses, farms, and consumers. The bank is not a subsidiary of any holding company and does not have any significant subsidiary or affiliate.

As of December 31, 2001, net loans comprised 38% of SNB's total assets. A summary of the loan portfolio is as follows:

<b>Loan Portfolio Composition As of December 31, 2001</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate Loans	3,920	29
Commercial Loans	1,368	10
Agriculture (Agricultural Production and Real Estate)	4,191	31
Residential Real Estate Loans	1,539	12
Consumer Loans	2,377	18
<b>Total</b>	<b>13,395</b>	<b>100</b>

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 in March 1998, and the bank was rated "Satisfactory." The only change in the bank's corporate structure is the approved merger of Stockmen's Financial Corporation, Cotulla with and into Stockmen's National Bank, effective December 10, 2001. The resulting bank title is still Stockmen's National Bank, and the Board of Directors and management remain the same as before the merger of the one-bank holding company.

## DESCRIPTION OF ASSESSMENT AREA (AA)

The bank's AA is La Salle County, Texas and meets the requirements of the regulation. The reader should note that there are no moderate- or upper-income census tracts in the bank's AA. The county is divided into two census tracts. One census tract is classified as low-income, and the other is classified as middle-income. The town of Cotulla and 85% of the county's population are in the middle-income census tract. The low-income census tract is located in the extreme southern part of La Salle County and starts approximately 25 miles from the bank.

Agriculture and government dominate the area economy. Cattle is the primary agricultural product, and La Salle County is internationally known for hunting. Area economic conditions have suffered recently due to dry weather and late freezes. A good hunting season, seasonal rains, and the pending approval of an Immigration and Naturalization Service Facility (INS) in

Cotulla should help economic conditions. Major employers in the AA are the INS, county government, and the school system. SNB's competition consists of one agricultural lending agency in its AA.

The population of the AA is approximately 5,254, and 4,449 or 85% of the population reside in the middle-income census tract based on 1990 census data. The chamber of commerce reports 4,411 of the population reside in Cotulla as of December 31, 2001. The median housing value is \$19,749 and the median year built is 1962. The 2001 updated Department of Housing and Urban Development (HUD) weighted-average median family income (MFI) for the AA is \$35,800. (Refer to the chart below for additional information on the economic and demographic characteristics of the AA.)

This office conducted two community contacts in SNB's AA. One person is a local government official and the other is with the Cotulla Chamber of Commerce. Credit needs identified by one contact included residential mortgage loans, and the second contact identified a need for commercial development loans. Both contacts were favorable in their comments about the performance of SNB and its participation in the community.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b>Population</b>	
Number of Families	1,354
Number of Households	1,772
<b>Geographies</b>	
Number of Census Tracts/BNAs	2
% Low-Income Census Tracts/BNAs	50
% Moderate-Income Census Tracts/BNAs	0
% Middle-Income Census Tracts/BNAs	50
% Upper-Income Census Tracts/BNAs	0
<i>*Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
1998 HUD-Adjusted MFI	\$32,200
1999 HUD-Adjusted MFI	\$33,900
2000 HUD-Adjusted MFI	\$34,700
2001 HUD-Adjusted MFI	\$35,800
<b>Economic Indicators</b>	
Unemployment Rate-AA February 2002	7.3%
Unemployment Rate-State February 2002	5.7%
Unemployment Rate-National February 2002	5.5%
2001 Median Housing Value	\$19,749
% of Households Below Poverty Level	36%

\*State-wide Non-metropolitan Areas

## SAMPLING INFORMATION

Our review focused on SNB's three main product lines: commercial real estate loans, agricultural, 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 and Farms 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 January 1, 1998 and December 31, 2001.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

SNB has demonstrated outstanding performance in meeting the credit needs of the AA, including low- and moderate-income families, consistent with its resources and capabilities.

### Loan-to-Deposit Ratio (LTD)

SNB's LTD ratio is reasonable when compared to similar size banks headquartered in adjacent counties. The banks in the following table have no other financial institutions in their AA. Refer to the table below.

Institution	County Location	Assets as of 12/31/01 (000s)	Quarterly Average LTD Ratio 3/31/98 - 12/31/01
Stockmens National Bank	La Salle	35,489	44.36%
Zavala County Bank	Zavala	50,737	37.85%
Dilley State Bank	Frio	50,242	23.57%

Given its size, primary loan products, AA's credit needs, and the area's economy, SNB's LTD ratio represents an outstanding responsiveness to the credit needs of the AA.

### Lending in Assessment Area

A substantial majority of the bank's lending-related activities are within the AA. From our sample, we determined that 85% of loans by number (or 91% by dollar volume) are made to borrowers located within the AA. The CRA Audit Report dated January 29, 2002 shows that the bank made 86% of loans between January 1, 1998 and December 31, 2001 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.

<b>Total Loans Reviewed</b>								
	<b>IN ASSESSMENT AREA</b>				<b>OUT OF ASSESSMENT AREA</b>			
<b>LOAN TYPE</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$ (000s)</b>	<b>%</b>
Commercial and Commercial RE	19	95	1,110	98	1	5	22	2
Agricultural and Agricultural RE	17	85	545	84	3	15	106	16
Consumer	15	75	85	70	5	25	36	30
<b>Total Reviewed</b>	<b>51</b>	<b>85</b>	<b>1,740</b>	<b>91</b>	<b>9</b>	<b>15</b>	<b>164</b>	<b>9</b>

### **Lending to Borrowers of Different Incomes, and to Businesses and Farms of Different Sizes**

SNB demonstrates excellent penetration when lending to businesses and farms of different sizes and to individuals with different income levels. A sample of 20 combined commercial and commercial real estate loans, 20 agricultural, and 20 consumer loans made within the AA were used for this evaluation. We equally considered each of these loan products in the overall rating for this assessment factor.

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 SNB's lending for commercial, agricultural, and consumer loans.

<b>Distribution of Borrowers by Income Level</b>								
<b>Consumer</b>								
<b>Borrower Income Level</b>	<b>LOW</b>		<b>MODERATE</b>		<b>MIDDLE</b>		<b>UPPER</b>	
<b>% of AA Household</b>	37		15		17		31	
<b>LOANS BY YEAR</b>	<b>% of Number</b>	<b>% of Amount</b>						
1998	0	0	5	5	0	0	0	0
1999	5	10	0	0	0	0	0	0
2000	5	6	5	8	10	23	5	8
2001	30	21	20	6	10	9	5	2
<b>Total</b>	<b>40</b>	<b>37</b>	<b>30</b>	<b>21</b>	<b>20</b>	<b>32</b>	<b>10</b>	<b>10</b>

SNB made the majority of its farm and business loans to businesses and farms with gross annual revenues of less than \$1 million. The following tables illustrate the lending distribution to farms and businesses located within the bank's AA. A small business or a small farm is defined as a business or farm with gross annual revenues of less than \$1 million.

<b>Borrower Distribution Of Loans To Businesses (Non-Farm)</b>		
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 \$	51	49

The above table shows that 51% of the dollar volume of sampled business loans were to businesses earning less than \$1 million in gross revenues. Our sample included two large loans to businesses with gross annual income of more than \$1 million. Those two loans skewed the percentage of dollar volume of bank loans in the AA. As noted in the above table, 94% of the businesses in the AA earn less than \$1 million in gross revenues, and the bank originated 90% of the number of loans to small businesses. The figures highlight the bank's strong commitment to these borrowers.

<b>Borrower Distribution Of Loans To Farms</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	83	17
% of Bank Loans in AA #	100	0
% of Bank Loans in AA \$	100	0

Our sample did not contain any loans to farms or farm operations with gross revenues of more than \$1 million. According to bank management and a local business executive, many farm operations either sold off their cattle or reduced the production of crops over the past two to three years due to dry weather and winter freezes.

### **Geographic Distribution of Loans**

SNB's geographic distribution of loans reflects excellent dispersion throughout the AA given the bank's size, primary loan products, and the AA's demographics. The following tables illustrate the lending distribution of the sampled commercial, agricultural, and consumer loans originated in the AA.

Distribution of Business Loans (Non-Farm) by Tract Income Level								
Census Tract Income Level	LOW		MODERATE (None)		MIDDLE		UPPER (None)	
% of AA Businesses	11		0		89		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1998	0	0	0	0	15	9	0	0
1999	0	0	0	0	20	12	0	0
2000	0	0	0	0	40	63	0	0
2001	0	0	0	0	25	16	0	0
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>100</b>	<b>100</b>	<b>0</b>	<b>0</b>

Distribution of Farm Loans by Tract Income Level								
Census Tract Income Level	LOW		MODERATE (None)		MIDDLE		UPPER (None)	
% of AA Businesses	21		0		79		0	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
1998	0	0	0	0	5	17	0	0
1999	0	0	0	0	15	12	0	0
2000	0	0	0	0	20	10	0	0
2001	10	3			50	58	0	0
<b>Totals</b>	<b>10</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>90</b>	<b>97</b>	<b>0</b>	<b>0</b>

Our loan samples contained no business loans made to borrowers living in the one low-income census tract of the bank's AA. However, the internal CRA Audit Report dated January 29, 2002 identified 52 loans in the low-income census tract that originated between January 1, 1998 and December 31, 2001. They totaled \$207 thousand in commercial loans, \$105 thousand in consumer loans, \$29 thousand in agricultural loans, and \$295 thousand in real estate loans. The preceding figures represent 5% by number and 6% by dollar volume to borrowers in the one low-income census tract in SNB's AA.

This level of lending activity in the AA's one low-income census tract is the result of the following factors:

- The town of Cotulla and 85% of the county's population is in the middle-income census tract.

- The low-income census tract is located at least 25 miles away from the bank in the extreme southern part of La Salle County.
- According to management and the chamber of commerce, consumers, businesses, and farmers located in southern La Salle county in the low-income tract do most, if not all, of their banking and shopping in the large south Texas town of Laredo, Texas. Laredo is just 35 to 40 miles south the of the low-income census tract where there are many larger financial institutions and finance companies.

<b>Distribution of Borrowers by Tract Income Level</b>								
<b>Consumer</b>								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Tracts	50		0		50		0	
LOANS BY YEAR	% of Number	% of Amount						
1998	0	0	0	0	5	6	0	0
1999	5	11	0	0	0	0	0	0
2000	0	0	0	0	25	44	0	0
2001	5	11	0	0	60	28	0	0
<b>Total</b>	<b>10</b>	<b>22</b>	<b>0</b>	<b>0</b>	<b>90</b>	<b>78</b>	<b>0</b>	<b>0</b>

### **Responses to Complaints**

There have been no CRA-related consumer complaints received since the previous evaluation.

### **Fair Lending Review**

We found no violations of anti-discrimination laws. An analysis of public comments and complaints from 1998 through 2001, along with the results of the most recent fair lending examination conducted on March 16, 1998, suggest that the bank has a strong record of complying with anti-discrimination laws.