



PUBLIC DISCLOSURE

May 4, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Somerset National Bank
Charter Number 17826**

**Post Office Box 911
19401 Somerset Road
Somerset, Texas 78069**

**Office of the Comptroller of the Currency
San Antonio North Duty Station
9601 McAllister Freeway, Suite 200
San Antonio, Texas 78216-4605**

Note: 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 CRA performance of **Somerset National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 4, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**.

Somerset National Bank's (SNB) lending performance reflects an adequate responsiveness to community credit needs. The following describes the bank's performance:

- The loan-to-deposit ratio meets the standards for satisfactory performance given the overall community characteristics, assessment area credit needs, the competitive environment, and the bank's size and financial condition.
- A majority of the number, and dollar volume, of loans originated from January 1996 through March 1998 are in SNB's assessment area.
- The distribution of borrowers reflects a reasonable penetration among individuals of different incomes and businesses of different sizes.
- The geographic distribution of loans reflects an excellent dispersion throughout the assessment area.
- The bank received no consumer complaints concerning its CRA performance since the January 1996 examination.

The following table indicates the performance level of **Somerset National Bank** with respect to each of the five performance criteria.

Small Institution Assessment Criteria	Somerset National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio		X	
Lending in assessment area		X	
Lending to borrowers of different incomes and to businesses of different sizes		X	
Geographic distribution of loans	X		
Response to complaints	No complaints were received since the prior examination.		

Description of Institution

Somerset National Bank (SNB) was chartered in 1983. It is a locally owned, community bank with total assets of \$13,636,000 as of March 31, 1998. The bank's primary emphasis is to provide local banking services to the suburban/rural area immediately southwest of San Antonio, Texas. Lending is focused on consumer and small business loans, and primarily loans secured by vehicles, bank accounts, and equipment.

SNB's earning asset mix consists of 18% loans and 70% investment securities. The bank's lending focus is reflected in those loans originated from the prior Performance Evaluation, dated January 31, 1996 to March 31, 1998. During that period, the bank originated 627 loans for a total of \$4,131,000, over double the current number of loans and loan dollars outstanding at March 31, 1998. Almost three-fourths (74%) of the number of these loans were for consumer purposes, and 54% of all loans are secured by vehicles.

As of March 31, 1998, the 290 loans in the portfolio totaled \$2,085,000. This included consumer loans \$942,000 (45% of total loans), commercial loans \$808,000 (39% of total loans), commercial real estate loans \$293,000 (14% of total loans) and 1-4 family residential loans \$42,000 (2% of total loans). This distribution is consistent with SNB's main business strategy and expertise.

The bank's financial condition is favorable and there are no legal impediments that interfere with its ability to make credit available in its assessment area. SNB's one office is located at the intersection of Loop 1604 South and Somerset Road, in the City of Somerset, Texas, four miles east of IH 35.

Description of Assessment Area

Somerset National Bank's assessment area (AA) consists of five census tracts (CTs) in southwest Bexar county and two block numbering areas (BNAs) in northwest Atascosa county. The Bexar CTs are in the San Antonio Metropolitan Statistical Area (MSA) 7240, while the Atascosa BNAs are not in an MSA. The AA is contiguous to the southern border of the City of San Antonio, and the city of Somerset is 10 miles away from a highly active area along S.W. Military Drive. The Bexar CTs are moderate-income and the Atascosa BNAs are middle-income; no low- or upper-income tracts are in the AA. The AA does not arbitrarily exclude any low- or moderate-income census tracts. The local Somerset economy is stable to low growth with little significant commercial activity. The largest local employer is the Somerset School District, but many of those professional employees live in San Antonio.

The population of the AA based on the 1990 U.S. Census, totals 33,075 with 55% being Hispanic, 44% being white, and the remainder being of other race/ethnic origins. Persons 15 and younger are 33% of the population and those over 65 are 10%. Housing units total 11,729 with an 87% occupancy rate, 68% are 1-4 family residences, and 66% are owner occupied. The median housing value is \$39,954 and the median year built is 1973. The 1990 Median Family Income (MFI) for the MSA is \$28,380 and the updated 1997 MFI is \$37,600. For the Atascosa BNAs, the 1990 statewide nonmetropolitan MFI is \$24,586 and the updated MFI amount is \$32,100. It is noted that in the 1990 Census, the MSA CTs that are in the AA had an average MFI of \$21,418 and the BNA's had an average MFI of \$24,344.

Most of the workforce in the AA is employed in San Antonio, making competition for financial products and services high. This one factor significantly affects the bank's ability to compete for loans and deposits, and other financial products and services. Strong competition comes mainly from the San Antonio area through large credit unions, (Security Service Federal Credit Union, Randolph-Brooks Federal Credit Union, San Antonio Teachers Credit Union, and Southside Credit Union), banks with locations in south San Antonio (Prime Bank, Nations Bank, and Bank of America), the full array of mortgage companies, and large captive finance companies (Ford Motor Credit, GMAC Credit Corporation, et. al.).

The AA includes one other banking location. Lytle State Bank (LSB), a \$50MM independent community bank, opened in 1910 and is located on IH 35 South on the border of the AA, 12 miles west of SNB. LSB's lines of business are consumer loans (57% of total loans as of March 31, 1998), real estate loans (24%), commercial loans (12%), and agricultural loans (8%). The Lytle economy is currently experiencing growth primarily because of the opening of a new H.E.B. grocery store. H.E.B. has the largest market share in the San Antonio area among grocers. LSB also benefits from a favorable location, a larger population, and an established customer base.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio meets the standards for satisfactory performance given the overall community's characteristics, the AA credit needs, competitive environment, and the bank's size and financial condition. SNB's loans-to-deposits ratio, as of March 31, 1998, is 17.19%. This ratio has been stable since January 1996, ranging from 16.30% to 19.45%. Only one other financial institution is in the AA and it is located on the border of the AA. SNB's average loan-to-deposit ratio for the last nine calendar quarters is 17.82% since the previous CRA Evaluation. Lytle State Bank's loan-to-deposit ratio is 48.51% for March 31, 1998, and the ratio has averaged 46% over the last nine quarters with a low of 42.12% and a high of 50.29%

Although the loan-to-deposit ratio is low, it is affected by the overall community characteristics (43% of the population is either under 16 or over 65 years of age), strong competition from San Antonio area financial institutions, and the bank's somewhat isolated location. The strong competition stems from a local population that commutes to and from San Antonio for their jobs, and most goods and services. The bank is somewhat isolated as the city of Somerset is not located en route to the growing areas of its AA or to goods and services in San Antonio. SNB is effectively meeting credit needs identified by community contacts with 54% of the loan portfolio originations over the last two years being secured by used vehicles. The vehicles are a major need because much of the workforce is employed in nearby San Antonio. A need for home improvement financing is also met as shown in the 52 such loans for a total of \$440,000 made since the prior evaluation in January 1996. Other community credit needs such as residential construction lending have been met through an active interim construction lending for new homes in Somerset. The bank made 10 loans since January 1996 for an average of \$46,000 per loan. In addition, while not already on the books, the bank has binding commitments totaling \$157,500 to provide financing for land acquisition and for construction of three additional homes. The bank does not offer permanent residential financing because of its size and limited financial resources. To help serve this need, management refers those who seek long term home loans to mortgage companies in San Antonio which offer the most favorable rates and terms.

Assessment Area Concentration

A majority of the number and dollar volume of loans originated in calendar years 1996 and 1997 are in the AA. Based on the bank's analysis, 89% of the number and 86% of the total dollars of loans on the bank's books as of December 31, 1997, were in the AA. As of December 31, 1996, the number of loans was 87% and the total dollars was 85%. Based on the fact that the total loan originations since prior CRA performance evaluation approximates twice the total loan portfolio on March 31, 1998, it is reasonable to state that a large percentage of the loans as of a particular year-end were originated in that year.

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

The distribution of borrowers reflects a reasonable penetration of loans to individuals with different income levels. A sample of loans originating from January 1996 through March 1998, within the bank's assessment area, was taken to assess the appropriateness of the distribution among different income levels. The sample consisted of 61 consumer loans and 15 commercial loans. No income data was on file for two consumers; therefore, 59 loans are detailed below. Income information was not available for the residential interim construction loans as they were predicated on commitments from permanent lenders. The following table represents the distribution of the loan originations sampled by income level.

Loan Sample Distribution by Income Group										
<i>dollars in 000's</i>	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total # of Families	
Area Demographic Characteristics	28%		20%		21%		31%		100%	
# of Families	2,360		1,638		1,799		2,637		8,434	
Loan Type		%		%		%		%		%
Consumer #	26	44.1	12	20.3	9	15.3	12	20.3	59	100
Consumer \$	\$70	27.7	\$40	15.8	\$29	11.5	\$114	45.0	\$253	100

The following distribution of lending to businesses of different sizes is commensurate with the bank's size, financial resources, and capabilities. The following table represents lending to businesses based on a sample of loans originated since January 1996.

Lending to Businesses of Different Sizes										
Gross Revenues \$	Less than 100,000		100,000-250,000		250,000-1,000,000		More than 1,000,000		Total	
Loan Type	#	%	#	%	#	%	#	%	#	%
Commercial	11	73.3	1	6.7	1	6.7	2	13.3	15	100

Geographic Distribution of Loans

The geographic distribution of loans reflects an excellent dispersion throughout the AA. This determination is based on a geocoding of a sample of loans originated since the prior performance evaluation in January 1996. Of the types of loans reviewed, 54 of 61 consumer loan customers, all residential loans, and 11 of 15 commercial loans were in the AA.

Distribution of Loans by Income Level of Tract										
	Low-Income 0 Tracts 0%		Moderate-Income 5 Tracts 71%		Middle-Income 2 Tracts 29%		Upper-Income 0 Tracts 0%		Total 7 Tracts 100%	
Consumer	0	0%	47	87%	7	13%	0	0%	54	100%
Commercial	0	0%	10	91%	1	9%	0	0%	11	100%
Residential*	0	0%	10	100%	0	0%	0	0%	10	100%
TOTALS:	0	0%	67	89%	8	11%	0	0%	75	100%

* All residential loans were interim construction loans originated since the last PE in January 1996. Only one remains on the bank's books. SNB has binding commitments totaling \$157,500 for three more interim construction loans and one loan for the purchase of land on which the three homes will be built; this data is not included in the above table.

Response to Complaints

SNB has not received any complaints from the public regarding the bank's CRA performance.

A Fair Lending examination was performed in conjunction with this evaluation. We performed a comparative analysis of recent consumer vehicle loans to persons with Hispanic surnames and Whites. We found no evidence of apparent disparate treatment or discriminatory practices.