



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**October 21, 2002**

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

**Pioneer National Bank  
Charter Number 17626**

**1710 North Llano  
Fredericksburg, TX 78624**

**Comptroller of the Currency  
San Antonio North Field Office  
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.**

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## INSTITUTION'S CRA RATING

**This institution is rated Satisfactory.**

Pioneer National Bank's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The distribution of loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- A substantial majority of loans and other lending-related activities are in the bank's assessment area.
- The loan-to-deposit ratio is less than reasonable given the bank's size, financial condition, and assessment area credit needs.

## DESCRIPTION OF INSTITUTION

Pioneer National Bank (PNB) is a \$70 million financial institution. The bank has one location in Fredericksburg, Texas. PNB is 100% owned by Pioneer Bankshares, Inc., a one-bank holding company. The holding company is locally owned. The bank has two automatic teller machines. One is located at the main building and the other is located at the bank's drive-up facility in Fredericksburg. PNB is a full-service bank whose main focus is on serving the city of Fredericksburg. The bank's emphasis is on residential real estate loans. At the prior CRA examination dated May 12, 1997, a Satisfactory rating was assigned. There are no legal or financial factors impeding the bank's ability to help meet the credit needs of the assessment area.

As of June 30, 2002, net loans represent 31% of the bank's total assets. A summary of the loan portfolio is shown below:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Residential Real Estate Loans	11,378	52%
Commercial Real Estate Loans	6,611	30%
Commercial Loans	1,975	9%
Consumer Loans	1,860	9%
<b>Total</b>	<b>21,824</b>	<b>100%</b>

## DESCRIPTION OF GILLESPIE COUNTY

The bank's assessment area is Gillespie County. The county includes five block numbering areas (BNAs). Four BNAs are designated as middle-income areas, while the fifth is upper-income. There are no low- or moderate-income BNAs in the assessment area. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

Fredericksburg is located about 65 miles northwest of San Antonio and 75 miles west of Austin. The economy of Fredericksburg is dependent on the tourism and health care industries. Fredericksburg is known for its bed and breakfast inns and antique and craft shops. Nearly 25% of the population of Gillespie County is over the age of 65. The largest employers in the county are the local hospital and school district. Of all families located in Gillespie County, 15% are low-income, 15% are moderate-income, 24% are middle-income, and 46% are upper-income. The following table provides more information on Gillespie County.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	5,092
Number of Households	6,814
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	80%
% Upper-Income Census Tracts/BNA	20%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
2001 HUD-Adjusted MFI	\$35,800
<i>Economic Indicators</i>	
Unemployment Rate	1.88%
2001 Median Housing Value	\$66,881
% of Households Below Poverty Level	14.97%

Examiners contacted the local chamber of commerce and reviewed a previously completed community contact with a local business leader. Neither contact identified unmet credit needs in the community.

## SAMPLING/COMPARISON INFORMATION

Our review focused on the bank's primary product lines: residential real estate loans and commercial/small business loans. For this evaluation, we combined commercial and commercial real

estate loans into one sample. We sampled 23 residential real estate loans and 20 commercial loans. PNB originated all loans in our samples since the previous CRA examination.

In evaluating the bank’s loan-to-deposit ratio, we compared PNB to the one other bank headquartered in the assessment area, and other banks in the surrounding counties. We used banks in surrounding counties because the only other bank headquartered in the assessment area is not similarly situated. The other bank has total assets exceeding \$450 million, and has 11 branch locations including several branches outside of Gillespie County.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has demonstrated satisfactory performance in meeting the credit needs of the assessment area.

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

The distribution of loans reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. The bank’s lending to residential real estate borrowers compares reasonably to the demographic makeup of the assessment area. The bank made 14% of the number of residential real estate loans sampled to low-income borrowers and 18% to moderate-income borrowers. This compares to 15% of all families in the assessment area being low-income and 15% being moderate-income. The bank’s level of lending is lower when considering the dollar volume of loans. This is reasonable as low- and moderate-income families generally borrow lower dollar amounts than middle- and upper-income families when purchasing homes.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	15%		15%		24%		46%	
	% of Number	% of Amount						
1997 to 2002	14%	4%	18%	7%	23%	20%	45%	69%

The bank adequately lends to businesses of different sizes. Of the 20 commercial loans sampled, the bank made 90% of the number of loans to businesses with gross annual revenues less than \$1 million. Of all businesses in the county that reported revenue information, 95% had gross annual revenues less than \$1 million. Our loan sample indicated PNB made 35% of its loans to businesses with gross annual revenues less than \$100,000. The bank made 77% of the loans sampled to businesses with gross annual revenues less than \$1 million based on dollar volume. This number is reasonable as larger businesses generally borrow larger amounts than smaller businesses.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	95%	5%
% of Bank Loans in AA #	90%	10%
% of Bank Loans in AA \$	77%	23%

### Lending in Assessment Area

A substantial majority of loans were made in the bank’s assessment area. Of the 23 residential real estate loans sampled, the bank made 96% of the loans in the assessment area. Management extended all of the commercial loans sampled within the assessment area. The following table shows the bank’s record of lending in the assessment area.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential RE	22	96%	864	90%	1	4%	91	10%
Commercial	20	100%	918	100%	0	0%	0	0%
Total Reviewed	42	98%	1,782	95%	1	2%	91	5%

### Loan-to-Deposit Ratio

The loan-to-deposit ratio is less than reasonable given the bank’s size, financial condition, and assessment area credit needs. Since December 31, 1997, the bank’s quarterly average loan-to-deposit ratio is 33%. This is low when compared to the other bank headquartered in the assessment area, and most of the banks in surrounding counties. The average loan-to-deposit ratio for the other 11 banks is 55%. There is one bank in the surrounding counties that also has a 33% average loan-to-deposit ratio, and three other banks have average loan-to-deposit ratios of 45% or below. The following table illustrates PNB’s quarterly average loan-to-deposit ratio compared to the other banks.

<b>Institution</b>	<b>Assets (as of 06/30/02)</b>	<b>Average LTD Ratio</b>
<b>Pioneer National Bank</b>	70,225	33%
Arrowhead Bank	99,860	33%
Junction National Bank	39,396	43%
Llano National Bank	60,861	45%
Highland Lakes Bank	76,226	45%
The Commercial Bank	16,614	51%
First State Bank	29,736	52%
Cattleman's National Bank	75,001	53%
Blanco National Bank	89,603	64%
Security State Bank & Trust	458,053	69%
Johnson City Bank	44,479	70%
The Mason National Bank	56,239	76%

### **Geographic Distribution of Loans**

An analysis of the bank's geographic distribution of loans would not be meaningful because there are no low- or moderate-income BNAs in the assessment area.

### **Responses to Complaints**

PNB has not received any complaints or public comments regarding its CRA performance during this evaluation period.

### **Fair Lending Review**

An analysis of 1997 through 2002 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 2001.