



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 06, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Ozona National Bank
Charter Number 7748

P.O. Box 430
Ozona, TX 76943

Office of the Comptroller of the Currency

San Antonio South 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 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.

Ozona National Bank's (ONB) lending performance reflects a satisfactory response to community credit needs in its assessment areas (AA). This conclusion is based on the following results from our review:

- The loan-to-deposit (LTD) ratio meets the standard for satisfactory performance.
- The bank originated a substantial majority of loans inside its AAs.
- Lending activities represent an excellent penetration among individuals of different income levels and businesses of different sizes.
- Geographic distribution of loans represents a reasonable dispersion.

SCOPE OF EXAMINATION

ONB 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 AAs through its lending activities.

The lending test for ONB covers its performance from January 29, 2007 through February 6, 2011. ONB's primary loan products in Montague and Crockett County are commercial and agriculture/farm loans. The primary loan products in Hays County are commercial and residential real estate loans. To evaluate the bank's commercial, agriculture/farm, and residential lending performance, we selected a sample of commercial, agriculture/farm, and residential loans made from January 29, 2007 through December 31, 2011. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). HMDA data from 2009, 2010 and 2011 were tested and found to be unreliable. Therefore, HMDA data was not used to evaluate the bank's residential loan performance.

DESCRIPTION OF INSTITUTION

ONB, an intrastate bank headquartered in Ozona, Texas, was chartered in 1905 and is wholly owned by Ozona Bancshares, Inc., a one-bank holding company. ONB reported total assets of \$213 million and tier one capital of \$21 million at December 31, 2011. It has five offices: the main office located in Ozona, three branches located in San Marcos, Wimberley, and Bowie, and a loan production office located in San Antonio, Texas. ONB provides full service deposit and loan products at all branches.

The main office and all three branches have a walk-in teller lobby, a drive-up motor bank, and an automated teller machine (ATM). The loan production office in San Antonio only offers full service loan products. All offices accept loan applications and all loans are closed in the office where the application originated. Additionally, customers can access their depository accounts through the internet, ATMs, and telebank. There have not been any significant changes to ONB's corporate structure, including merger or acquisition activities, since the last CRA examination.

At December 31, 2011, ONB reported net loans of \$111.5 million and a net loans and leases to total assets ratio of 52 percent. The following chart provides a detailed summary of the loan portfolio at December 31, 2011.

Loan Portfolio Summary by Loan Product December 31, 2011		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial	58,600	52.54%
Agriculture/Farm	23,880	21.41%
Residential	16,307	14.62%
Other Loans	8,615	7.72%
Consumer	4,142	3.71%
Total	111,544	100%

There are no legal, financial, or other factors that impede ONB's ability to help meet the credit need in its AA. The previous CRA examination, dated January 29, 2007, rated ONB "Satisfactory" under the small bank criteria.

DESCRIPTION OF ASSESSMENT AREA(S)

ONB has four three AAs which include the counties of Crockett, Hays, and Montague. The defined AAs meet the requirements of the CRA regulation and no low- or moderate-income tracts are arbitrarily excluded.

Crockett County Assessment Area

The Crockett County AA is comprised of the complete county. Crockett County is a rural county located in West Texas. This AA meets the requirements of the regulation and does not contain any low-or moderate-income (LMI) areas.

Demographic Information for the Crockett County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	1	0	0	100	0
Population by Geography	4,099	0	0	100	0
Owner-Occupied Housing by Geography	1,089	0	0	100	0
Businesses by Geography	304	0	0	100	0
Farms by Geography	35	0	0	100	0
Family Distribution by Income Level	1,124	21.00	21.35	15.12	42.53
Household Distribution by Income Level	1,522	23.92	18.99	15.97	41.13
Census Median Family Income (MFI)		\$34,653	Median Housing Value		\$48,900
HUD-Adjusted MFI: 2011		\$48,600	Families Below Poverty Level		18.86%
HUD- Adjusted MFI: 2010		\$46,500	Unemployment Rate		4.17%
HUD – Adjusted MFI: 2009		\$45,600			

The current local economy is characterized as good and stable. Economic activity is centered in ranching and gas exploration. The hotel industry also does well in the area, serving tourists, primarily hunters, and gas workers. Average unemployment is low. Competition from other

financial institutions is low, as there is only one other financial institution located in Crockett County.

We contacted a member of a government agency that serves Crockett County who indicated that the community’s current economic condition is good and centered in ranching, gas exploration, and the hunting tourism industry. He indicated that there is a shortfall in housing because local ranchers buy houses that they rent out to ranch hands. Based on this information he feels that the main opportunity for financial institutions to aid in community development is by providing agriculture/farm and home construction loans.

Hays County Assessment Area

The Hays County AA is comprised of the complete county. Hays County is located in Central Texas and is part of the Austin-Round Rock-San Marcos MSA. This AA meets the requirements of the regulation and does not arbitrarily exclude any LMI areas.

Demographic Information for the Hays County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	14	7.14	42.86	35.71	14.29
Population by Geography	97,589	10.43	28.34	41.23	20.00
Owner-Occupied Housing by Geography	21,680	3.63	20.63	47.86	27.89
Businesses by Geography	16,310	4.02	23.10	44.48	28.41
Farms by Geography	543	4.05	14.92	44.01	37.02
Family Distribution by Income Level	22,394	19.47	20.57	24.04	35.91
Household Distribution by Income Level	33,465	26.68	16.98	19.57	36.77
Census Median Family Income (MFI)		\$57,800	Median Housing Value		\$112,017
HUD-Adjusted MFI: 2011		\$74,900	Families Below Poverty Level		14.37%
HUD- Adjusted MFI: 2010		\$73,800	Unemployment Rate		4.40%
HUD – Adjusted MFI: 2009		\$73,300			

The current local economy is characterized as good. Economic activity is relatively diverse and includes tourism, dining, and retail and wholesale businesses. The tourism industry is a large part of the Wimberley economy due to the fact that Wimberley does not currently have a hotel tax. Average unemployment for the area is low. Competition from other financial institutions is very high and includes over 20 branches of local, regional, and national financial institutions.

We contacted a member of a local community organization who indicated that the community’s current economic condition is good. She indicated that loans for affordable housing were a credit need in the area. Based on this information she feels that there are opportunities for financial institutions to aid in community development by providing loans for affordable housing and by conducting seminars or workshops that focus on how to repair credit scores so that people with past credit problems can qualify for home loans.

Montague County Assessment Area

The Montague County AA is comprised of the complete county. Montague County is located in North Texas along the Texas-Oklahoma boarder. This AA meets the requirements of the regulation and does not contain any LMI areas.

Demographic Information for the Montague County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	6	0	0	100	0
Population by Geography	19,117	0	0	100	0
Owner-Occupied Housing by Geography	6,118	0	0	100	0
Businesses by Geography	2,642	0	0	100	0
Farms by Geography	217	0	0	100	0
Family Distribution by Income Level	5,486	18.79	16.82	23.51	40.87
Household Distribution by Income Level	7,759	25.25	15.35	17.23	42.17
Census Median Family Income (MFI)		\$38,231	Median Housing Value		\$56,008
HUD-Adjusted MFI: 2011		\$48,600	Families Below Poverty Level		14.47%
HUD- Adjusted MFI: 2010		\$46,500	Unemployment Rate		3.18%
HUD – Adjusted MFI: 2009		\$45,600			

The current local economy is characterized as good primarily due to the current oil and gas mining activity associated with the Barnett Shale formation. Economic activity is relatively diverse and includes oil field related services, agriculture, services, and retail businesses. Average unemployment for the area is low. Competition from other financial institutions is high and includes three local community financial institutions, one regional credit union branch, and two branches of large national financial institutions.

We contacted a member of a local community organization who indicated that the community’s current economic condition is good due to the oil field activity in the area. She stated that there is a shortfall in small business lending in the area, and she would like to see the local financial institutions offer small businesses assistance in creating viable business plans. Based on this information she feels that there are opportunities for financial institutions to aid in community development by providing small business loans and offering seminars or workshops for small business owners.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

ONB’s performance under the lending test is satisfactory considering the performance context and needs of its’ AAs. Borrower distribution was given more weight than the geographic distribution because two AAs do not have any LMI census tracts (CTs).

Loan-to-Deposit Ratio

ONB’s net loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and AA credit needs. The net loan-to-deposit ratio averaged 60.25 percent over the 20 quarters since the last CRA examination, with a low of 49.94 percent and a high of 66.43 percent.

The ratio is comparable to the ratios of other community banks of similar sizes, locations, and product offerings. ONB ranks fifth among a total of six similarly situated banks serving its AA. The other five banks had an average net loan-to-deposit ratio of 69.96 percent, ranging from 51.43 percent to 108.55 percent. Crockett National Bank had a much higher average LTD ratio than the other banks. If Crockett National Bank was not included, then the average LTD ratio of the remaining banks would be 62.20 percent and ONB would compare more favorably.

Lending in Assessment Area

A substantial majority (78.33 percent) of the primary loan products originated within the AAs. The following table details the bank’s lending within the AAs by number and dollar amount of loans that originated during the evaluation period.

Table 1 - Lending in Crockett, Hays, and Montague Counties										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
	Commercial	16	80.00	4	20.00	20	2,360	69.72	1,025	30.28
Agriculture/Farm	15	75.00	5	25.00	20	1,591	85.79	264	14.21	1,855
Residential	16	80.00	4	20.00	20	2,158	78.78	581	21.22	2,739
Totals	47	78.33	13	21.67	60	6,109	76.56	1,870	23.44	7,979

Source: Loan sample

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

The distribution of loans reflects excellent penetration among individuals of different income levels and businesses of different sizes, given the bank’s product offerings and local economic conditions.

Performance in the Crockett County AA

The borrower distribution of loans in the Crockett County AA is excellent. Agriculture/farm loans and 1-4 family construction loans were identified as credit needs in this AA.

Commercial Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Eighty five percent of the bank’s loans to businesses originated and purchased during the loan sampling period were made to small businesses (defined as businesses with gross annual revenues of one million dollars or less). The following table shows the distribution of commercial loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Businesses in Crockett County AA

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	50.00	3.29	46.71	100.00
% of Bank Loans in AA by #	85.00	15.00	0.00	100.00
% of Bank Loans in AA by \$	32.49	67.51	0.00	100.00

Source: Loan sample; Dunn and Bradstreet data.

Agriculture/Farm Loans

The distribution of agriculture/farm loans reflects excellent penetration among farms of different sizes. One hundred percent of the agriculture/farm loans that originated during the loan sampling period were to small farms, defined as farms and ranches with gross annual revenues of one million dollars or less. This is considered excellent compared to demographic data that show 94.29 percent of the area’s farms are considered small farms. The following table shows the distribution of agriculture/farm loans among different sized businesses.

Table 2A - Borrower Distribution of Loans to Farms in Crockett County AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	94.29	0.00	5.71	100.00
% of Bank Loans in AA by #	100.00	0.00	0.00	100.00
% of Bank Loans in AA by \$	100.00	0.00	0.00	100.00

Source: Loan sample; Dunn and Bradstreet data.

Performance in the Hays County AA

The borrower distribution of loans in the Hays County AA is reasonable. Loans for affordable housing were identified as a credit need in this AA.

Commercial Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Seventy five percent of the loans originated during the loan sampling period were made to small businesses. This is considered reasonable compared to demographic data that show 69.29 percent of the area’s businesses are considered small businesses. The following table shows the distribution of commercial loans among different sized businesses.

Table 2A - Borrower Distribution of Loans to Businesses in Hays County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69.29	1.64	29.07	100.00
% of Bank Loans in AA by #	75.00	25.00	0.00	100.00
% of Bank Loans in AA by \$	58.72	41.28	0.00	100.00

Source: Loan sample; Dunn and Bradstreet data.

Residential Real Estate Loans

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels even though our review of reflects lower percentages than those reported in the demographic data for low-income borrowers. ONB made 5.00 percent of its home loans to low-income borrowers during the evaluation period. The demographic data indicates that 19.48 percent of families in the AA are low-income. A mitigating factor in the penetration of low-income families is the fact that households below the poverty level represent 14.37% of the total households in the AA. Borrowers living below the poverty level could have a difficult time qualifying for home loans.

Home loans to moderate-income borrowers are reasonable. ONB made 20 percent of its home loans to moderate-income borrowers. This is considered reasonable compared to demographic data that show 20.57 percent of the area’s families are considered moderate-income families. The following table shows the distribution of home loans among borrowers of different income levels compared to the percent of families in each income category.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Hays County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential RE	19.48	5.00	20.57	20.00	24.04	10.00	35.91	65.00

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

Performance in the Montague County AA

The borrower distribution of loans in the Montague County AA is excellent. Small business loans were identified as a credit need in this AA.

Commercial Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Eighty five percent of the loans to businesses that originated during the loan sampling period were made to small businesses. This is considered excellent compared to demographic data that show 74.11 percent of the area’s businesses are considered small businesses. The following table shows the distribution of commercial loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Businesses in Montague County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	74.11	1.44	24.45	100.00
% of Bank Loans in AA by #	85.00	15.00	0.00	100.00
% of Bank Loans in AA by \$	50.23	49.77	0.00	100.00

Source: Loan sample; Dunn and Bradstreet data.

Agriculture/Farm Loans

The distribution of agriculture/farm loans reflects excellent penetration among farms different

sizes. One hundred percent of the bank’s agriculture/farm loans that originated during the loan sampling period were made to small farms. This is considered excellent compared to demographic data that show 98.62 percent of the area’s farms are considered small farms. The following table shows the distribution of agriculture/farm loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Farms in Montague County AA				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	98.62	0.46	0.92	100.00
% of Bank Loans in AA by #	100.00	0.00	0.00	100.00
% of Bank Loans in AA by \$	100.00	0.00	0.00	100.00

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the bank’s AA given identified credit needs. No significant lending gaps were found within the bank’s AAs.

Performance in the Crockett County AA

A geographic distribution evaluation was not conducted in this AA since the county does not include any LMI CTs.

Performance in the Hays County AA

The bank’s geographic distribution of loans reflects reasonable dispersion throughout census tracts of different income levels. The geographic distribution of home loans is poor, but the excellent dispersion of business loans results in a reasonable overall geographic distribution in this AA.

The poor geographic distribution of home loans in this AA is explained by competition in the city of San Marcos. ONB has two branches in Hays County, one in San Marcos and one in Wimberley. The bank’s one low-income CT is located on the north east side of San Marcos. Five of the six moderate-income CTs are located at least partially in San Marcos. There are 17 other bank branches in the San Marcos area that also make residential real estate loans. For this reason, the Wimberley branch originates a majority of the bank’s residential real estate loans in Hays County. The town of Wimberley is located in three CTs. None of the three CTs in Wimberley are LMI tracts.

Commercial Loans

The bank’s geographic distribution of business loans reflects an excellent dispersion throughout the census tracts of different income levels. The percentage of business loans originated in both the low and moderate-income CTs is excellent with the percentage of loans made within the LMI CTs both exceeding the percentages of the demographic data. The following table details the bank’s performance as compared to the percentage of businesses in each census tract income

level.

Table 3A - Geographic Distribution of Loans to Businesses in Hays County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	4.02	10.00	23.10	35.00	44.48	55.00	28.40	0.00

Source: Loan sample; Dunn and Bradstreet data.

Home Loans

The bank’s geographic distribution of home loans AA reflects poor dispersion throughout census tracts of different income levels. The percentage of home loans originated in both the low and moderate-income CTs is poor with the percentage of loans made within the LMI CTs falling below the percentages of the demographic data. This is due to the high level of lending competition in the LMI CTs located in the city of San Marcos. The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Hays County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential RE	3.63	0.00	20.63	10.00	47.86	85.00	27.88	5.00

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

Performance in the Montague County AA

A geographic distribution evaluation was not conducted in this AA since the county does not include any LMI CTs.

Responses to Complaints

ONB has not received any CRA-related complaints during the 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.