



**Comptroller of the Currency
Administrator of National Banks**

Public Disclosure

January 6, 1998

Community Reinvestment Act Performance Evaluation

**The Hondo National Bank
Charter Number 14351**

**1112 18th Street
Hondo, Texas 78861**

**Office of the Comptroller of the Currency
Southwestern District
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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 **The Hondo National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **January 6, 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.

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

- The bank's loan-to-deposit ratio meets the standard for satisfactory performance, averaging 44% since the previous examination. This exceeds the average for all but one other institution in the assessment area.
- A majority of the bank's loans and other lending related activities are made in the bank's delineated assessment area (AA).
- The distribution of borrowers reflects a strong penetration among individuals of different income groups and businesses (and farms) of different sizes.
- There have been no consumer complaints with respect to the bank's CRA performance.

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

Small Institution Assessment Criteria	(Name of Financial Institution) 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 previous examination.		

Description of Institution

The Hondo National Bank was chartered in 1936 and provides banking services through its one office (with ATM) in Hondo, Texas. It is a locally owned and managed institution with \$ 23 million in total assets as of September 30, 1997. Net loans amounted to 47% of total assets as of that date. The bank offers traditional loan products including consumer instalment, residential, small business and agricultural loans.

There are no financial or legal impediments to the bank's ability to meet the area's credit needs. The last CRA performance evaluation was done September 20, 1995. The bank was rated "Satisfactory."

A breakdown of the bank's total loan portfolio as of September 30, 1997:

Loan Type	Amount	% of Portfolio
Commercial	3,652	32
Agricultural	4,207	37
Residential	2,435	22
Consumer	989	9
Total	11,283	100

Description of Medina County

The Hondo National Bank has defined its assessment area as Medina County, Texas. The definition meets regulatory requirements and does not arbitrarily exclude low or moderate income areas. The county had a population of 27,312 in 1990 and there has been significant population growth since that time. The county is not part of a metropolitan statistical area (MSA) and the chief population centers are Hondo, the county seat, and Castroville. The area economy is centered in farming, ranching and mineral production. Two recently opened state prison facilities employ roughly 500 people. The unemployment rate is currently 3.9%, below the state-wide average. Other financial institutions in the area include five other local community banks and the branch of a large San Antonio based institution.

The median family income for the county was \$ 25,519 for 1997, significantly less than the state non-metropolitan area average of \$ 31,500. Twenty-three percent of families in the county are considered low-income, 14% are moderate-income, 20% are middle-income and 43% are upper-income. The county is divided into seven census tracts. Five are defined as middle-income and two are upper-income.

We conducted a community contact with the Medina Economic Development Foundation. The contact emphasized residential and other housing loans as a pressing community credit need.

Conclusions with Respect to Performance Criteria

Management has demonstrated satisfactory performance in meeting the credit needs of the assessment area, including low and moderate income families.

Loan to Deposit Ratio

The bank’s loan to deposit ratio meets the standard for satisfactory performance, comparing favorably with most other institutions in the area. The ratio has averaged 44% since the previous CRA evaluation and has improved steadily in recent years. The ratio was 52% as of September 30, 1997.

Lending in Assessment Area

A majority of the loans reviewed in our sample were to borrowers within the designated assessment area. By number, 84% of our consumer loan sample and 80% of our residential sample were in the assessment area. However, agricultural and commercial loans were less concentrated in the AA. A bare 50% of our agricultural sample and just 40% of our commercial sample (by number) were located in the AA. Of our total sample of 55 loans, 69% by number and 58% by dollar amount were located in the assessment area.

The volume of lending outside of Medina County has increased in recent years and management has, since the date of our examination, redefined the bank’s assessment area to include several surrounding counties.

Lending to Borrowers of Different Incomes and Farms of Different Sizes

The distribution of loans to borrowers of different income levels demonstrates strong lending efforts to low and moderate income borrowers, particularly in the consumer lending area. The following table reflects the distribution of 1997 consumer and residential originations in our sample:

Loan Sample Distribution by Income Group										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total # of Families	
Area Demographic Characteristics	23%		14%		20%		43%		100%	
Loan Type	#	%	#	%	#	%	#	%	#	%
Consumer	8	32	9	36	5	20	3	12	25	100
Residential	0	0	2	20	5	50	3	30	10	100

The distribution of loans to businesses and farms of different sizes indicates also indicates a broad lending effort to small borrowers. In fact, all of the commercial and agricultural loans in our sample were to borrowers with gross revenues of less than \$ 500 thousand dollars. 70% of our agricultural sample was to borrowers with revenues of less than \$ 100 thousand dollars. The following table reflects the findings of our sample.

	Lending to Businesses and Farms of Different Sizes									
Gross Revenues \$	Less than 100,000		100,000-500,000		500,000-1,000,000		More than 1,000,000		Total	
Commercial	2	20	8	80	0	0	0	0	10	100
Agricultural	7	70	3	30	0	0	0	0	10	100

Geographical Distribution of Loans

There is a reasonable geographic distribution of loans in the assessment area. The delineated assessment area consists of seven census tracts, with two of the tracts defined as upper income, and the other five are defined as middle income. As defined by regulatory authorities, there are no lower or moderate income census tracts in the bank’s assessment area. As the two upper income tracts are located on the eastern edge of Medina County, the bank’s one office (in Hondo) is centered in middle income tracts and the bank’s lending patterns reflect this. Of our total sample of 55 loans, only one (an agricultural loan) was in an upper income tract. All other loans made within the assessment area were in middle income tracts.

Responses to Complaints

No complaints regarding the bank’s CRA performance have been received since the previous examination. Furthermore, based on the fair lending portion of our examination, there are no violations of the substantive portions of anti-discrimination laws and regulations.