



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

August 19, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Kleberg First National Bank Of Kingsville
Charter Number 12968**

**100 East Kleberg Avenue
Kingsville, TX 78363**

**Comptroller of the Currency
San Antonio South Field Office
5350 South Staples, Suite 405
Corpus Christi, TX 78411-4654**

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

The lending performance of Kleberg First National Bank of Kingsville (KFNB) reflects satisfactory response to community credit needs, including low- and moderate-income individuals and areas. Factors supporting the overall rating include:

- The average quarterly loan-to-deposit ratio of 63 percent is reasonable given the bank's size, financial condition, and market focus, as well as the lending opportunities available in the bank's assessment area (AA).
- A majority of loans in our sample of consumer loans are within the AA. Consumer loans are the bank's primary loan product comprising almost sixty percent of total loans. Our sample indicated 53 percent by number and 54 percent by dollar volume of these loans are within the bank's AA.
- The distribution of borrowers reflects a satisfactory penetration among individuals of different income levels with strong penetration of loans to small businesses and farms of different sizes.
- The geographic distribution of loans reflects reasonable dispersal throughout the AA.
- There have been no consumer complaints regarding the CRA performance of the bank during this evaluation period.

DESCRIPTION OF INSTITUTION

KFNB is a community bank located in Kingsville, Texas, about fifty miles southwest of Corpus Christi, Texas. KFNB has one main location, two branches, three depository automated teller machines (ATMs), and four nondepository ATMs. All of these facilities are located throughout Kingsville. At June 30, 2002, KFNB had total assets of \$165 million. Net loans totaled \$95 million and represented 58 percent of total assets. The previous CRA Performance Evaluation, dated October 23, 1997, assigned a satisfactory rating to the bank. There are no legal or other impediments that limit the bank's ability to meet the credit needs of its assessment area (AA).

KFNB is a wholly owned subsidiary of Kleberg Delaware, Inc., which is wholly owned by Kleberg and Company Bankers, Inc. These two holding companies are the bank's only affiliates.

KFNB is retail-oriented with its primary market focus on consumer lending, specifically indirect dealer loans for new and used vehicles. The following table depicts the composition of the loan portfolio as of June 30, 2002:

Loan Category	\$ (000)	%
Consumer Loans	57,226	59.62%
Commercial Loans	12,973	13.51%
Commercial Real Estate Loans	11,998	12.50%
Residential Real Estate Loans	11,867	12.36%
Agricultural Loans	1,920	2.00%
Other	12	0.01%
Total	95,996	100.00%

DESCRIPTION OF KLEBERG COUNTY

The bank's AA is Kleberg County, Texas. The AA includes the cities of Kingsville, Ricardo, Rivera, Loyola Beach, and the surrounding communities. Kleberg County consists of one moderate-income, one middle-income, and three upper-income block-numbering areas (BNAs). The county has a population of 31 thousand based on 1990 Census Data. The AA reasonably represents the lending and service areas of the bank. The AA designation meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The family income distribution for the AA is 26 percent low-income, 13 percent moderate-income, 18 percent middle-income, and 43 percent upper-income. The following table provides additional demographic information:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	7,268
Number of Households	9,899
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	20%
% Middle-Income Census Tracts/BNA	20%
% Upper-Income Census Tracts/BNA	60%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
2000 HUD-Adjusted MFI	\$34,700
2001 HUD-Adjusted MFI	\$35,800
2002 HUD-Adjusted MFI	\$36,100
<i>Economic Indicators</i>	
Unemployment Rate – July 2002	7.40%
% Owner-Occupied Housing	50%
1990 Median Housing Value	\$44,264
% Households Below Poverty Level	28%

Principal industries in Kleberg County are tied to services and retail trade. Major employers in

Kleberg County include the naval air base, the local university, and the hospital. Although in adjacent Nueces County, the Hoescht Celanese plant located only five miles from Kingsville, is also a major employer.

While several small businesses closed in the past few years, the local economy shows signs of improvement as several new businesses have opened and others are expected to open within the next year. Sales tax revenues have increased. However, the unemployment rate rose to 7.4 percent as of July 2002. Local competition includes one multi-national branch, two regional branches, and one state-chartered bank.

We contacted two local government officials who indicated affordable housing, home equity loans, and small business loans were the major credit needs in the community. One contact indicated KFNB had partnered with the Navy in financing a new apartment complex and had financed construction of affordable homes.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

KFNB has demonstrated satisfactory performance in meeting the credit needs of its AA. Our review focused on the primary lending products of the bank including consumer loans (indirect dealer loans for new/used vehicles and other consumer loans), small business loans, and residential loans. We selected a sample of these loan products to determine the extent of lending within the AA and the distribution of loans by borrower income level and geography throughout the AA. The analysis of the following categories was based on that sample.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. The quarterly loan-to-deposit ratio has averaged 63 percent since the previous CRA examination. At June 30, 2002, the ratio was 67 percent. The ratio compares favorably with the other locally chartered bank in the AA whose ratio averaged 46 percent through March 31, 2002.

While the bank's ratio exceeds the ratio of its main competitor, we decided to rate this component as satisfactory for several reasons. We noted that the average quarterly loan-to-deposit ratio has decreased from 71 percent noted during the previous CRA examination. In contrast, the average quarterly ratio for the other locally chartered bank in the AA increased from 35 percent. Finally, we also noted that the bank's peer group average quarterly ratio increased from 63 percent to 71 percent.

Lending in Assessment Area (AA)

KFNB meets the standards for satisfactory performance with a majority of loans made inside the AA. The overall dollar volume percentage of the loans in our sample is skewed by one large loan made to a business located outside the AA. Our sample included consumer, residential, and business loans originated since February 1, 2000. The consumer loan sample included indirect dealer loans for new and used vehicles. Indirect vehicle loans comprise approximately 28 percent of the total loan portfolio as of June 30, 2002. We noted from our sample that most of these borrowers reside outside the AA. The following table reflects the distribution of loans, by number and dollar volume, in and out of the AA.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	16	53%	163	54%	14	47%	139	46%
Residential	17	85%	511	72%	3	15%	203	28%
Business	19	95%	635	24%	1	5%	2,000	76%
Total Reviewed	52	74%	1,309	36%	18	26%	2,342	64%

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

KFNB meets the standards for satisfactory performance with reasonable distribution of loans to individuals of different income levels and to businesses of different sizes. Our sample of business loans noted a strong penetration to businesses with annual revenues less than or equal to \$1 million.

The analysis of residential lending activity reflected percentages lower than those reported in the demographic data for both low- and moderate-income families. Households that fall below the poverty level represent 28 percent of the total households in the AA. The level of income based on the 2002 HUD-adjusted median family income for this household segment is less than \$18.1 thousand. This level of income could inhibit potential borrowers from qualifying for residential loans as the 1990 Census data indicates the average median housing cost is \$44 thousand.

The following tables indicate the distribution of loans to borrowers with different income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	26%		13%		18%		43%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	15%	6%	10%	6%	20%	11%	55%	77%

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	28%		12%		15%		45%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	25%	10%	15%	18%	25%	22%	35%	50%

The following table reflects the distribution of loans to businesses. We noted a strong penetration of loans to small businesses.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	96%	4%
% of Bank Loans in AA #	100%	0%
% of Bank Loans in AA \$	100%	0%

Geographic Distribution of Loans

The analysis of the geographic distribution indicates reasonable dispersion throughout the AA. The AA does not include any low-income block numbering areas. As shown in the following tables, the geographic distribution of loans compares favorably with demographic data.

RESIDENTIAL LOANS								
Block Numbering Area Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0.00%		25%		19%		56%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0%	0%	25%	18%	25%	31%	50%	51%

CONSUMER								
Block Numbering Area Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.00%		22%		14%		64%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0%	0%	20%	12%	20%	17%	60%	71%

BUSINESS LOANS								
Block Numbering Area Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0.00%		24.24%		15.76%		60.00%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0%	0%	23%	30%	66%	40%	11%	30%

Responses to Complaints

The bank has not received any consumer complaints regarding its CRA performance during the evaluation period.

Fair Lending Review

An analysis of 1998 through 2001 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 1997.