



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 13, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National American Bank
Charter Number 17733**

**727 East Main Street
Uvalde, TX 78802**

**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.

TABLE OF CONTENTS

| | |
|---|---|
| <u>INSTITUTION'S CRA RATING</u> | 1 |
| <u>DESCRIPTION OF INSTITUTION</u> | 1 |
| <u>DESCRIPTION OF ASSESSMENT AREAS</u> | 2 |
| <u>CONCLUSIONS ABOUT PERFORMANCE CRITERIA</u> | 3 |

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

National American Bank's lending performance reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas.

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, market focus, and lending opportunities available in the assessment area(s).
- A majority of loans, representing 88% of the number and 72% of the dollar volume of our loan sample were made to borrowers within the bank's assessment area.
- The distribution of loans reflects a reasonable penetration among individuals of different income levels and to businesses of different sizes.
- The geographical distribution of loans reflects reasonable dispersion throughout the assessment areas.
- There have been no consumer complaints regarding the bank's CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

National American Bank (NAB) is a community bank with total assets of \$82 million. Its one office is located in Uvalde, Texas, the county seat of Uvalde County. Uvalde is located approximately 90 miles west of San Antonio, Texas. The bank is a subsidiary of Clarity Holdings, Inc., a one-bank holding company headquartered in Purchase, New York. The holding company purchased the former First National Bank of Uvalde in January 1999. The company's ownership is centered in the state of New York. Its assets are largely limited to the bank itself. Between March 1999 and August 2001, the bank operated as an Internet bank under the name Claritybank.com, N.A. Prior to its Internet operation, the bank was known as the First National Bank of Uvalde. An automatic teller machine is available at the bank's office and at one other location in Uvalde, Texas. The previous Community Reinvestment Act Performance Evaluation rating was dated June 4, 1997, and was Satisfactory. There are no legal or other impediments that limit the bank's ability to meet the credit needs of the assessment areas.

The primary lending focus is on small business and consumer loans. The bank also originates home purchase and improvement loans, but these have not been areas of lending emphasis. The bank makes a large dollar volume of commercial real estate loans referred to the bank by the holding company office in New York. The bank makes consumer loans for amounts as small as \$550. At the time of our examination there were more than 100 loans (mostly unsecured) on the books that originated for \$2,500 or less. The bank participates in the Small Business Administration (SBA) guaranteed loan program. As of March 31, 2002, there were three SBA

guaranteed loans with a combined balance of \$299 thousand. The volume of SBA loans is expected to increase with continued strong growth in commercial lending.

As of March 31, 2002, the bank's gross loan portfolio of \$25 million represented 31% of total assets. A summary of the portfolio follows.

| Loan Category | \$ (000) | Percentage |
|---|-----------------|-------------------|
| Commercial & Commercial Real Estate Loans | 20,364 | 79% |
| Consumer Loans | 913 | 4% |
| Agricultural & Farm Land Loans | 648 | 2% |
| Residential Real Estate Loans | 1,697 | 7% |
| Leases | 1,964 | 8% |
| Gross Loans | 25,586 | 100 |

DESCRIPTION OF ASSESSMENT AREAS

Texas Assessment Area

Uvalde and eight surrounding counties in south Texas have been designated as an assessment area (AA). Aside from Uvalde County, these include Medina, Bandera, Real, Edwards, Kinney, Maverick, Zavala and Frio Counties. This designation includes three low-income block numbering areas (BNA), eleven moderate income BNAs, fifteen middle income BNAs, and three upper income BNAs. Thirty-three percent of families in the overall area are considered low income, 19% are moderate income, 17% middle income and 31% upper income. The area's economy is primarily agricultural, particularly in the "Winter Garden" vegetable growing area centered in Zavala County. Agricultural activity is otherwise dominated by livestock production. Eagle Pass, on the Mexican border, is the largest population center in the AA. In recent years, it has experienced significant economic growth related to international trade. The AA includes a number of community banks and offices of large regional institutions. These include branches of International Bank of Commerce, Frost National Bank, and Broadway National Bank. The First State Bank of Uvalde, with total assets of \$337 million, is the dominant lending institution in Uvalde County. The area experienced very strong population growth of 27% in the 1990s. The year 2000 census information indicates the nine counties have a combined population of over 166 thousand.

New York Assessment Area

The bank's Board has also designated seven counties in metropolitan New York as an AA. These are New York, Kings, Queens, Bronx, Nassau, Suffolk and Westchester counties. The designated counties are located in two primary metropolitan statistical areas (PMAs). Westchester, Kings, Queens, Bronx and New York counties are in New York City PMA. The second PMA in Long Island includes Nassau and Suffolk counties. The designated area includes 2,843 census tracts. Three hundred fifteen census tracts are designated as low-income areas, 514 are moderate-income, 1,174 are middle-income, and 840 are upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income

geographies. According to 1990 census information, 24% of families in the AA are considered low income, 17% moderate income, 20% middle income and 39% upper income. The combined population of the seven counties is approximately 12 million based on 2000 census data. As an international financial center, the AA offers an almost unlimited variety of competing institutions. Economic conditions in New York are improving after the September 11th tragedy. Finance, manufacturing, construction, insurance, retail trade and real estate are primary industries that provide strong sources of employment in the AA. A summary of basic statistics concerning the two areas is included in the table below.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA | | |
|---|----------|-----------|
| <i>Population</i> | Texas | New York |
| Number of Families | 32,783 | 2,576,189 |
| Number of Households | 41,086 | 3,861,486 |
| <i>Geographies</i> | | |
| Number of Census Tracts/BNA | 32 | 2,843 |
| % Low-Income Census Tracts/BNA | 9% | 11% |
| % Moderate-Income Census Tracts/BNA | 34% | 18% |
| % Middle-Income Census Tracts/BNA | 47% | 41% |
| % Upper-Income Census Tracts/BNA | 10% | 30% |
| <i>Median Family Income (MFI)</i> | | |
| 1990 Census MFI | \$24,585 | \$41,347 |
| 2001 HUD-Adjusted MFI | \$35,800 | \$63,010 |
| <i>Economic Indicators</i> | | |
| Unemployment Rate | *6.9% | **7.1% |
| Percent of owner occupied housing | 55.46% | 38.97% |
| 1990 Median Housing Value | \$40,492 | \$197,383 |
| % of Households Below Poverty Level | 32.57% | 14.27% |

* Uvalde County, ** New York PMA

Interviews were held with two community contacts in the Uvalde area. One was with an economic development organization and the other was with a local government official.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan to deposit ratio is reasonable. The quarterly ratio has averaged 45% during the past four years. The ratio had declined as deposits grew during the bank's period of Internet Banking emphasis but has rebounded with strong commercial loan growth over the past year. The bank's ratio was 52% as of March 31, 2002, up sharply in recent months from a low of 38% on June 30, 2001. Average ratios (for the same period) for comparable area banks in the area ranged from as high as 58% for Community National Bank in Hondo, Texas to as low as 22% for the Dilley State Bank in Dilley, Texas.

| Institution | Assets as of 12/31/01 (millions) | Average LTD Ratio |
|--|---|------------------------------|
| National American Bank | 88 | 45% |
| Community National Bank, Hondo, Tx. | 76 | 58% |
| The Hondo National Bank, Hondo, Tx. | 53 | 55% |
| Castroville State Bank, Castroville, Tx. | 56 | 43% |
| Medina Valley State Bank, Castroville, Tx. | 66 | 38% |
| Dilley State Bank, Dilley, Tx. | 50 | 22% |

Lending in Assessment Area

The bank makes a majority of its loans in the AAs. Lending samples were analyzed to assess the degree to which lending activity is centered in the bank's designated areas. Samples of consumer and commercial loans made since our previous examination were taken for the Texas AA and a commercial loan sample was taken for the New York AA. Of our total loan sample, 88% by number and 72% by dollar amount was made to borrowers in the AAs. Loans originating from the Uvalde office were heavily centered in the Texas AA. By number, 95% of our consumer loan sample and 95% of the Texas AA commercial loan sample was in the AA. While lending efforts in the New York office are less focused on the designated AA, a majority of the number and dollar amount of loans originating in that office are within the AA.

| TOTAL LOANS REVIEWED | | | | | | | | |
|-----------------------------|---------------------------|----------|-----------------|----------|-------------------------------|----------|-----------------|----------|
| | IN ASSESSMENT AREA | | | | OUT OF ASSESSMENT AREA | | | |
| LOAN TYPE | # | % | \$(000s) | % | # | % | \$(000s) | % |
| Consumer | 24 | 96% | 166 | 91% | 1 | 4% | 17 | 9% |
| Commercial (Texas) | 19 | 95% | 923 | 98% | 1 | 5% | 18 | 2% |
| Commercial (New York) | 17 | 74% | 6,845 | 69% | 6 | 26% | 3,013 | 31% |
| Total Reviewed | 60 | 88% | 7,934 | 72% | 8 | 12% | 3,048 | 28% |

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

The loan distribution reflects reasonable penetration among business of different sizes and individuals of different income levels. Although commercial loans are the dominant lending product, the bank also originates a good number of consumer loans. As reflected on the tables below, the bank has a particularly strong consumer lending effort to low and moderate income borrowers.

| TEXAS ASSESSMENT AREA | | | | | | | | |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 32% | | 17% | | 17% | | 34% | |
| | % of Number | % of Amount |
| Consumer | 44% | 32% | 40% | 44% | 8% | 14% | 8% | 10% |

We examined a sample of commercial loans made in the Texas AA as well as the New York AA, where most of the commercial lending activity (and growth) has been over the past year. Our sample suggested an appropriate effort of lending to small businesses, particularly within the Texas AA. Forty-five percent of commercial loans by number sampled in the Texas AA reviewed were made to borrowers with revenues of under \$100 thousand. Both of the community contacts interviewed during our examination indicated small business loans were a key need in the Uvalde area.

| BORROWER DISTRIBUTION OF LOANS TO BUSINESSES (TEXAS AA) | | |
|---|--------------|--------------|
| 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 \$ | 71% | 29% |

We also analyzed the income distribution of a sample of commercial loans made in the New York AA. Lending in the New York AA already accounts for over half of the loan portfolio and continued strong growth is expected. Lending patterns to businesses in that AA are comparable to proportions within the community.

| BORROWER DISTRIBUTION OF LOANS TO BUSINESSES (NEW YORK AA) | | |
|--|--------------|--------------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses | 88% | 12% |
| % of Bank Loans in AA # | 88% | 12% |
| % of Bank Loans in AA \$ | 87% | 13% |

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AAs. Lending efforts in the Texas AA are centered in moderate and middle income BNAs in Uvalde County. Consumer lending in the county's moderate income areas was particularly strong. The bank has not been successful in reaching the three low income BNAs included in the Texas AA. The low income areas appear more difficult to reach, with all three low income tracts being centered around Eagle Pass, Texas, about 70 miles southwest of the bank's one office in Uvalde.

| TEXAS AA CONSUMER AND COMMERCIAL LOANS | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| | 3 | | 11 | | 15 | | 3 | |
| % of AA Households | 15% | | 31% | | 46% | | 8% | |
| % of AA Businesses | 16% | | 24% | | 50% | | 10% | |
| | % of Number | % of Amount |
| Consumer | 0% | 0% | 52% | 52% | 48% | 48% | 0% | 0% |
| Commercial | 0% | 0% | 15% | 3% | 85% | 97% | 0% | 0% |

The commercial lending effort *has* reached low income areas in the New York AA. Our sample included several loans to businesses located in low income areas. Eighteen percent of the sample by number and 24% by dollar amount were made to businesses located in low income areas. Several were also extended to businesses in moderate income areas.

| NEW YORK AA COMMERCIAL LOANS | | | | | | | | |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| | 315 | | 514 | | 1,174 | | 840 | |
| % of AA Businesses | 5% | | 17% | | 37% | | 41% | |
| | % of Number | % of Amount |
| Commercial | 18% | 24% | 18% | 20% | 41% | 34% | 23% | 22% |

Responses to Complaints

No consumer complaints regarding the bank's CRA performance were received during the evaluation period.

Fair Lending Review

An analysis of 1998, 1999, 2000 and 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 examination was performed in 1997.