



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 22, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Ozona National Bank
Charter Number 7748**

**503 11th Street
Ozona, TX 76943**

**Comptroller of the Currency
San Antonio North Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, Texas 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>	2
<u>DESCRIPTION OF CROCKETT AND HAYS COUNTIES</u>	2
<u>CONCLUSIONS ABOUT PERFORMANCE CRITERIA</u>	4

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

Ozona National 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 substantial majority of loans, representing 93% of the number and 92% of the dollar volume in our loan sample were made to borrowers within the bank's assessment area.
- The distribution of loans to individuals of different income levels is strong with a disproportional penetration of consumer loans to low- and moderate-income individuals.
- The geographical distribution of the bank's lending efforts is satisfactory.
- There have been no consumer complaints regarding the bank's CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

Ozona National Bank (ONB) is a community bank with total assets of \$125 million headquartered in Ozona, Texas, the county seat of Crockett County. Ozona is located about 200 miles northwest of San Antonio, Texas on IH 10. The bank also has two branch offices in Hays County, Texas, one in San Marcos and another in Wimberley. An automatic teller machine is available at each branch location as well as in Ozona. Also, a loan production office was recently opened in San Antonio, Texas. The bank is locally owned and operated. ONB's primary market focus is on small business and consumer lending. The previous CRA Performance Evaluation rating was dated May 8, 1996 and was Outstanding. There are no legal or other impediments that limit the bank's ability to meet the credit needs of the assessment area (AA).

The bank participates in Farm Service Agency (FSA) and Small Business Administration (SBA) guaranteed loan programs. As of March 31, 2002, there were seven SBA guaranteed loans with a combined balance of \$2.8 million and two FSA guaranteed loans with a total balance of \$38 thousand. The volume of SBA loans is expected to increase dramatically with the opening of the loan production office in San Antonio specializing in small business (including SBA) lending.

As of March 31, 2002, the bank net loans of \$50 million representing 40% of total assets. A summary of the portfolio is included below:

Loan Category	\$ (000)	%
Consumer Loans	6,332	12%
Commercial & Commercial Real Estate Loans	38,365	75%
Agricultural & Farm Land Loans	2,120	4%
Residential Real Estate Loans	4,305	8%
Other Loans	65	<1%
Total	51,187	100

DESCRIPTION OF CROCKETT AND HAYS COUNTIES

The bank's designated assessment area (AA) is Crockett County and Hays County, Texas.

Hays County

Hays County is in central Texas and is part of the Austin-San Marcos Metropolitan Statistical Area (MSA). The county had 65,614 people in 1990 and grew rapidly in the 1990s. It includes the communities of San Marcos, Wimberley and Dripping Springs. The county has a diversified, mostly serviced based economy. The San Marcos economy in particular is heavily influenced by Southwest Texas State University. Banking competition is heavy with several area banks and branches of regional institutions. Hays County consists of 14 census tracts. Three are upper-income, eight are middle-income, one is moderate-income and two are low-income. The distribution of families in Hays County by income level within the county are 22% low-income, 18% moderate-income, 23% middle-income, and 37% upper-income.

Crockett County

Crockett County is a rural county in West Texas. The county had a population of 4,078 based on the 1990 Census and experienced little growth in the 1990s. The county seat, Ozona, accounts for about 80 percent of the population. The local economy is centered on agriculture (mostly stock raising) and oil and gas production. Agricultural conditions have been relatively poor in recent years and agricultural lending has been flat. Consumer loans remain a key lending need. One other bank is based in Crockett County. Income distribution in the county is comparable to Hays County, though based on a lower median family income. Twenty-five percent of families are low-income, 20% moderate-income, 13% middle-income and 42% are upper-income. The county consists entirely of one middle income block numbering area (BNA).

The AA reasonably represents the bank's lending and service area. The designation meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The following table reflects additional AA demographics. The “MSA” column refers to data for the Hays County AA. The “non-MSA” column is for Crockett County.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA		
<i>Population</i>	Non MSA	MSA
Number of Families	1,088	14,443
Number of Households	1,453	22,165
<i>Geographies</i>		
Number of Census Tracts/BNA	1	14
% Low-Income Census Tracts/BNA	0%	14%
% Moderate-Income Census Tracts/BNA	0%	7%
% Middle-Income Census Tracts/BNA	100%	57%
% Upper-Income Census Tracts/BNA	0%	22%
<i>Median Family Income (MFI)</i>		
1990 Census MFI	\$24,585	35,481
2001 HUD-Adjusted MFI	\$35,800	64,700
<i>Economic Indicators</i>		
Unemployment Rate	3.6%	4.2%
Percent of owner occupied housing	51.34%	51.25%
1990 Median Housing Value	\$42,700	\$77,303
% of Households Below Poverty Level	22.57%	22.92%

As part of our examination we contacted the Ozona Chamber of Commerce. The contact indicated economic activity was relatively flat in the Crockett County area but had favorable impressions of ONB’s efforts to meet the credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan to deposit ratio is reasonable, particularly given the relatively limited loan demand in the Crockett County AA. The bank's quarterly loan to deposit ratio has averaged 46% during the past four years. Average ratios (for the same period) for comparable area banks with offices in metropolitan areas ranged from as high as 76% for Crockett County National Bank to as low as 30% for the First National Bank of Mertzon.

Lending in Assessment Area

The bank extends a substantial majority of its loans to borrowers in the AA. Lending samples were analyzed to assess the degree to which lending activity is centered in the bank's designated AA. Samples of consumer and commercial loans were taken. All owner occupied residential loans made in 2002, 2001 and 2000 were also reviewed. Of our total loan sample, 93% by number and 92% by dollar amount was made to borrowers in the AA. Ninety-two percent of our consumer loan sample and 95% of the commercial loan sample was in the AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	60	92%	2,779	91%	5	8%	280	9%
Consumer	34	92%	324	86%	3	8%	51	14%
Commercial	19	95%	677	99%	1	5%	10	1%
Total Reviewed	113	93%	3,780	92%	9	7%	341	8%

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

The loan distribution to individuals with different income levels within the AA exceeds the standard for satisfactory performance. As reflected in the tables below the bank has a particularly strong consumer lending effort to low- and moderate-income borrowers. The bank's residential lending effort in Hays County also reaches a disproportionate number of moderate-income individuals as reflected in the following table:

HAYS COUNTY								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	22%		18%		23%		37%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	60%	27%	27%	32%	0%	0%	13%	41%
Residential	7%	2%	35%	35%	29%	25%	29%	38%

Lending patterns in the Crockett County AA were closer to proportions within the population.

CROCKETT COUNTY								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	25%		20%		13%		42%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	25%	4%	25%	19%	15%	31%	35%	46%
Residential	0%	0%	15%	9%	28%	33%	57%	58%

Our commercial loan sample centered on loans made in the Hays County AA where most of the commercial lending activity (and growth) has been in recent years. Our sample suggested an appropriate effort at lending to small businesses in Hays County. Twenty-five percent of commercial loans reviewed (by number) were made to borrowers with revenues of under \$100 thousand.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES AND FARMS		
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 \$	90%	10%

Geographic Distribution of Loans

The geographic distribution of loans made within the AA is reasonable. Lending efforts are concentrated in middle-income areas. This is not surprising since Crockett County is made up *entirely* of one middle-income block numbering area and eight of the fourteen census tracts in Hays County (accounting for 60% of families in the county) are classified as middle income. Also, both of the bank's offices in Hays County are located in middle-income tracts.

Based on our sample of loans made in Hays County, the bank's level of consumer lending in middle-income census tracts is 73% by number and 74% by dollar volume. All owner occupied residential loans made in Hays County in 2000, 2001 and 2002 were to borrowers in middle-income tracts. Commercial loans were more dispersed, with several in low- and moderate-income tracts.

HAYS COUNTY CONSUMER, RESIDENTIAL AND COMMERCIAL LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
	2		1		8		3	
%of AA Families	10%		7%		60%		23%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer	0%	0%	7%	1%	73%	74%	20%	25%
Residential	0%	0%	0%	0%	100%	100%	0%	0%
Commercial	10%	28%	15%	18%	70%	51%	5%	3%

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 exam was performed in 2000.