



PUBLIC DISCLOSURE

December 14, 1998

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

**Commercial National Bank
Charter Number 4866**

**100 South Washington
Beeville, Texas 78104-0400**

**Office of the Comptroller of the Currency
San Antonio South Field Office
9601 McAllister Freeway, Suite 200
San Antonio, Texas 78216-4605**

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 Community Reinvestment Act (CRA) performance of **Commercial National Bank, Beeville, Texas**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **December 14, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

Commercial National Bank (Commercial) is responsive to the credit needs of the community including low- and moderate-income areas and individuals, and small businesses. This is evidenced by the following:

- The loan-to-deposit ratio is reasonable given Commercial's size, financial condition, and credit needs of the assessment area (AA). The bank's loan-to-deposit ratio has averaged 31 percent for the past eleven quarters and is comparable to similarly situated institutions in the AA.
- A substantial majority of loans are made within the bank's AA.
- The distribution of borrowers reflects satisfactory penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.
- There have been no consumer complaints regarding the bank's CRA performance during this evaluation period.

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

COMMERCIAL NATIONAL BANK PERFORMANCE LEVELS			
SMALL INSTITUTION ASSESSMENT CRITERIA	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		✓	
Lending in Assessment Area	✓		
Lending to Borrowers of Different Incomes and Businesses of Different Sizes		✓	
Geographic Distribution of Loans		✓	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Commercial, a retail-oriented community bank, is a wholly owned subsidiary of Commercial National Bank, Delaware, which in turn is wholly owned by South Texas Bancshares, Inc. At September 30, 1998, Commercial had total assets of \$137 million with loans of \$39 million. Its main office and one limited service facility are located in Beeville, Texas, approximately 60 miles northwest of Corpus Christi, Texas. Full-service facilities are located in Mathis, about 30 miles southwest of Beeville, and in Goliad, about 30 miles northeast of Beeville. Four automated teller machines are located conveniently throughout Beeville and Mathis.

The bank's primary business focus is small business, real estate, and consumer lending. In addition to providing a vast array of loan and deposit products, Commercial also provides trust services. Strong competition exists from the numerous financial institutions in the AA. These institutions include national banks, state banks, credit unions, and finance companies.

There are no legal, financial, or other factors that impede Commercial's ability to meet the credit needs of its assessment area. The previous CRA examination, dated April 11, 1996, resulted in a satisfactory rating.

The loan portfolio represents about 28 percent of total assets. A detailed summary of the loan portfolio is shown in the following table:

Loan Portfolio Composition as of September 30, 1998		
Loan Type	Dollar Volume (000's)	% of Loan Portfolio
Commercial	12,951	33.54%
Commercial Real Estate	12,310	31.88%
1 - 4 Family Residential	6,433	16.66%
Consumer	4,416	11.43%
Agricultural	2,471	6.40%
Other	34	0.09%
Total	38,615	100.00%

DESCRIPTION OF THE ASSESSMENT AREAS

Commercial has designated two AA's. The first AA includes all of Bee and Goliad counties. It is not located in a Metropolitan Statistical Area (MSA). Bee County includes 6 block-numbering areas (BNAs), while Goliad County has 2 BNAs. The BNAs in this AA are further described as one moderate- and seven middle-income BNAs. There are no low- or upper-income BNAs in this AA. By income level, the percentage of families in the AA includes: 25 percent low-income, 16 percent moderate-income, 20 percent middle-income, and 39 percent upper-income.

According to the 1990 U.S. Census, population for the two counties is reported at 31 thousand with a median family income (MFI) of \$24,586. Annually, the Department of Housing and Urban Development (HUD) updates the MFI. For 1998, the MFI was updated to \$32,100. The local economy is considered stable. Major employers include the state prison system, the community college, the independent school districts, and retail businesses.

The second AA includes Mathis and the surrounding community. This is further described as census tracts (CT) 112 and 113 of MSA 1880 (Corpus Christi, Texas). CT 113 envelops the city and is designated low-income. CT 112 includes the surrounding area much of which borders on Lake Corpus Christi in western San Patricio county and is defined as middle-income. By income level, the percentage of families in this AA includes: 41 percent low-income, 17 percent moderate-income, 17 percent middle-income, and 25 percent upper-income.

According to the 1990 U.S. Census, population for this AA is reported at 9 thousand with a median family income (MFI) of \$28,499. For 1998, HUD updated the MFI to \$38,200. Local economy is considered stagnant to stable with many retirees and individuals who commute to Corpus Christi for employment. The area is dependent on agriculture and recreation.

These two assessment areas meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies.

Two community contacts were performed in conjunction with this examination along with one done earlier in 1998 in conjunction with another examination. The first contact represented the County of Goliad, the second one represented the Town of Mathis, and the third one represented the City of Beeville. All three contacts indicated there were not any unmet credit needs in their communities. They stated that additional housing, of all kinds, is their community's primary need. They also stated that all banks, including Commercial, are active within the community and provide needed community services.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management satisfactorily meets the credit needs of its AA, including low- and moderate-income individuals and small businesses, consistent with its resources and capabilities.

- ***Loan to Deposit Ratio***

Commercial's loan-to-deposit ratio meets the standard for satisfactory performance and is comparable to other similar institutions in the area. At September 30, 1998, the loan-to-deposit ratio stood at 31 percent. Since the prior CRA examination of April 1996, it has averaged 31 percent (quarterly average) ranging from a low of 25 percent to a high of 37 percent. The average loan-to-deposit ratio for the five comparable banks in the AA was 45 percent. These ratios ranged from 31 percent to 75 percent. Commercial's loan-to-deposit ratio would be higher except for the fact that the bank purchased two branches in 1997 which resulted in an increase in deposits of \$43 million while loans only increased by \$2 million. Since the quarter in which that purchase took place, the bank's loan-to-deposit ratio has steadily increased each quarter.

- ***Lending in the Assessment Areas***

Bee County, Texas and Goliad County, Texas Assessment Area

A substantial majority of loans are extended within this AA. A sample of residential and consumer loans originated in 1998 indicates 94 percent of the number and 57 percent of the dollar amount were extended within the bank's AA. Our sample included 51 loans totaling \$1.1 million.

Loans in Bee County and Goliad County Assessment Area				
Loan Type	Number	Percent	Amount	Percent
Residential	22	91.67%	481	49.77%
Consumer	26	96.30%	171	99.08%
TOTALS:	48	94.12%	652	57.26%

Mathis, Texas Assessment Area (CT's 112 and 113 of MSA 1880)

A substantial majority of loans are extended within this AA. A sample of residential and consumer loans originated in 1998 indicates 91 percent of the number and 87 percent of the dollar amount were extended within the bank's AA. Our sample included 44 loans totaling \$387 thousand. The table below shows loans made in the AA by loan type.

Loans in Mathis Assessment Area (MSA 1880: CT's 112 and 113)				
Loan Type	Number	Percent	Amount	Percent
Residential	33	100%	272	100%
Consumer	7	63.64%	65	56.05%
TOTALS:	40	90.91%	337	86.93%

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

Bee County, Texas and Goliad County, Texas Assessment Area

Commercial meets the standards for satisfactory performance of this criteria with good penetration of loans to low- and moderate-income individuals and small businesses. The distribution generally reflects the income characteristics of the AA. A comparison of our loan sample to the AA demographic data is detailed in the following tables.

Loan Sample Distribution by Income Group for Bee County and Goliad County Assessment Area										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total # of Families	
Area Demographic Characteristics	25.19%		15.78%		20.50%		38.54%			
# of Families	2,069		1,296		1,684		3,166		8,215	
Loan Type	#	%	#	%	#	%	#	%	#	%
Consumer	6	22%	8	30%	3	11%	10	37%	27	100%
Residential	2	8%	4	17%	3	13%	15	63%	24	100%
Total	8	16%	12	24%	6	12%	25	49%	51	100%

Lending to Businesses and Farms of Different Sizes - Bee County and Goliad County Assessment Area												
Revenue Ranges	<\$100		\$100-\$250		\$250-\$500		\$500-\$1,000		>\$1,000		Totals	
	#	%	#	%	#	%	#	%	#	%	#	%
Businesses	65	56%	35	30%	8	7%	5	4%	4	3%	117	100%
Farms	41	75%	11	20%	2	3%	0	0%	1	2%	55	100%
Totals	106	62%	46	27%	10	6%	5	3%	5	3%	172	100%

Note: Dollar amounts were not included in the above table as they would not have been meaningful.

Mathis, Texas Assessment Area (CT's 112 and 113 of MSA 1880)

Commercial meets the standards for satisfactory performance of this criteria with good penetration of loans to low- and moderate-income individuals and small businesses. The distribution generally reflects the income characteristics of the AA. The small population of consumer loans and the small number of consumer loans in the low-income category is reflective of the fact that many of these families work in Corpus Christi, Texas and do most of their consumer banking business in that market. A comparison of our loan sample to the AA demographic data is detailed in the following tables.

Loan Sample Distribution by Income Group for Mathis AA										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total # of Families	
Area Demographic Characteristics	42.11%		16.87%		16.51%		24.51%			
# of Families	931		373		365		542		2,211	
Loan Type	#	%	#	%	#	%	#	%	#	%
Consumer	2	18%	4	36%	4	36%	1	9%	11	100%
Residential	37	40%	31	33%	13	14%	12	13%	93	100%
Total	39	38%	35	34%	17	16%	13	13%	104	100%

Lending to Businesses and Farms of Different Sizes - MSA 1880: CT's 112 and 113												
Revenue Ranges	<\$100		\$100-\$250		\$250-\$500		\$500-\$1,000		>\$1,000		Totals	
	#	%	#	%	#	%	#	%	#	%	#	%
Businesses	23	96%	0	0%	1	4%	0	0%	0	0%	24	100%
Farms	7	100%	0	0%	0	0%	0	0%	0	0%	7	100%
Totals	30	97%	0	0%	1	3%	0	0%	0	0%	31	100%

● ***Geographic Distribution of Loans***

Commercial has reasonable geographic distribution of lending throughout its assessment area. A limited analysis of the geographic distribution of lending in the Bee and Goliad county AA was performed since seven of the eight BNAs are middle-income. The one moderate-income BNA is located in northern Bee county and includes about 9 percent of the AA's population. This area is rural and contains several large farms with limited loan demand. Our sample of consumer and residential real estate loans made in this AA revealed 10 percent of the number were located in the moderate-income BNA.

As noted in the description of the Mathis, Texas AA, there is one low-income CT and one middle-income CT. A review of the loans made in this AA indicates 66 percent of the number of residential loans and 64 percent of the number of consumer loans were in the low-income CT.

● ***Responses to Complaints***

Commercial has not received any complaints or comments from the public regarding their CRA performance during the evaluation period.

● ***Record of Compliance with Anti-discrimination Laws***

Based on the loans sampled during our examination, we did not identify any violations of the substantive provisions of the anti-discrimination laws and regulations. No practices were detected which would discourage applicants from applying for the types of credit offered by Commercial.