



PUBLIC DISCLOSURE

JULY 13, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Karnes County National Bank
Charter Number 5614**

**301 East Calvert
Karnes City, Texas 78118**

Supervisory Agency:

**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 **Karnes County National Bank, Karnes City, Texas**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **July 13, 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**.

Karnes County National Bank (KCNB) is satisfactorily meeting the community credit needs of its assessment area, including low- and moderate-income individuals, consistent with its resources and capabilities. The bank's satisfactory performance is evidenced by the following:

- The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and credit needs of the assessment area (AA). KCNB's loan-to-deposit ratio has averaged 33.43% since the prior CRA evaluation and is comparable to similar institutions in its AA.
- A majority of loans are made within the bank's AA which consists of the entirety of Karnes County.
- The distribution of borrowers reflects reasonable dispersion among individuals of different income levels (including low- and moderate-income individuals) and businesses and farms of different sizes.
- The geographic distribution of loans reflects reasonable penetration throughout the AA.
- There have been no consumer complaints regarding KCNB's CRA performance during this evaluation period.

The following table indicates the performance level of Karnes County National Bank with

respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>KARNES COUNTY NATIONAL BANK</u> 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 AA		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 prior examination.		

DESCRIPTION OF INSTITUTION

KCNB is an independently owned bank with total assets of \$47 million as of June 30, 1998. KCNB has its main office in Karnes City with ATMs in Karnes City and Kenedy. KCNB provides a wide range of credit products and deposit services to the community. Credit products include the following types of loans: consumer, residential, commercial, agricultural, and small business. There are no legal, financial, or other factors that impede the bank's ability to help meet the credit needs of the assessment area. The prior CRA examination for KCNB is dated June 30, 1995 at which time the bank received a satisfactory rating. The mix of the bank's loan portfolio, as of June 30, 1998, is shown in the following table:

DESCRIPTION OF INSTITUTION (Continued)

Loan Type	Dollar Volume (000's)	% of Loan Portfolio
Consumer	\$ 3,846	26%
1 - 4 Family Residential	\$ 3,562	24%
Commercial Real Estate and Construction	\$ 2,465	17%
Commercial	\$ 2,100	14%
Agricultural Real Estate	\$ 1,588	11%
Agricultural - Other	\$ 1,220	8%
Total	\$ 14,781	100%

DESCRIPTION OF THE ASSESSMENT AREA

KCNB has designated Karnes County as its AA. Karnes County consists of four Block Number Areas (BNA's) with a total population of 12,455 (per the 1990 Census). The AA comprises one middle-income and three moderate-income BNA's. The percentage of families in the AA, by income level, is as follows: low-income 34.93%; moderate-income 17.27%; middle-income 14.19%; and upper-income 33.59%. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. Other financial institutions in the AA include two independent national banks, two branches of a regional bank, and two small credit unions.

Kenedy, Karnes City, and Falls City are the largest cities in the county. The area's economy is linked to: state and private correctional institutions, local school districts, light manufacturing, medical facilities and services, retail, agribusiness, and local government. Karnes County is not located in a metropolitan statistical area (MSA). The statewide non-metropolitan 1998 median family income (MFI) is \$32,100, as determined by the U.S. Department of Housing and Urban Development (HUD). We made two contacts with local community organizations in conjunction with this examination. One contact provides assistance to low-income individuals and families including food stamps, welfare payments, and day care. The other contact provides general services to Karnes City. Both contacts indicated that they were not aware of any unmet credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

- **Loan to Deposit Ratio**

KCNB’s loan to deposit ratio is reasonable. The bank had an average loan to deposit ratio of 33.43% for the last 12 quarters from September 30, 1995 through June 30, 1998. The average loan to deposit ratios of the two independent banks in the AA were 31.59% and 42.77%, for the same 12 quarter period.

- **Lending in the Assessment Area**

Using a sample, we determined that a majority of the bank’s loans are within the bank’s AA. Our sample of 72 loans included all residential real estate related loans made in the prior twelve months (still outstanding) and a sample of consumer loans made in the prior six months. This sample showed that 75% of the number of loans and 58% of the dollar amount were made within the bank’s AA. The table below shows loans made in the AA by loan type.

Loans in the Assessment Area				
Loan Type	Number	Percent by #	Amount (000’s)	Percent by \$
Consumer	27	38%	51	2%
Residential related	21	29%	609	28%
Commercial and Farm	6	8%	601	28%
TOTAL	54	75%	1,261	58%

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

The distribution of loans to individuals of different income levels (including low- and moderate-income) within the AA is reasonable. Our loan sample reflected a high level of consumer loans to low-income and moderate-income individuals. Residential related lending in the prior twelve months reflects a high level of lending to middle- and upper-income families. With emphasis on the overall number of loans, the information in the chart below reflects a lending distribution which is reasonably in line with the AA demographics.

Loan Sample Distribution by Income Group

	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total # of Families	
Area Demographic Characteristics	34.94%		17.27%		14.19%		33.60%		100%	
# of Families	1,147		567		466		1,103		3,283	
Loan Type by #	#	%	#	%	#	%	#	%	#	%
Consumer	17	46%	12	32%	5	14%	3	8%	37	100%
Residential related	2	8%	1	4%	9	36%	13	52%	25	100%
Total	19	31%	13	21%	14	23%	16	26%	62	100%
Loan Type by \$	\$	%	\$	%	\$	%	\$	%	\$	%
Consumer	12	16%	30	39%	24	32%	10	13%	76	100%
Residential related	21	3%	34	5%	221	30%	457	62%	733	100%
Total	33	4%	64	8%	245	30%	467	58%	809	100%

The distribution of loans to businesses and farms of different sizes within the AA is also reasonable. Our review of a sample of 10 commercial and agricultural loans, originated in the prior 12 months, reflected the following distribution:

Lending to Businesses and Farms of Different Sizes										
Gross Revenues \$	Less than 250,000		250,000-500,000		500,000-1,000,000		More than 1,000,000		Total	
Loan Type	#	%	#	%	#	%	#	%	#	%
Commercial and Agricultural	6	60%	3	30%	0	0%	1	10%	10	100%

- **Geographic Distribution of Loans**

The dispersion of loans within the AA is reasonable. The demographic data provided from the 1990 census information indicates that there are three moderate-income and one middle-income

BNA's in Karnes County. This bank is located in a moderate-income BNA. There are no low- or upper-income BNA's in the AA. Our sample of loans reflected that loans are made throughout the AA, but primarily in two of the three moderate-income areas.

- **Responses to Complaints**

During this evaluation period, KCNB received no consumer complaints regarding its CRA performance. Based on our analysis of a sample of recently approved and denied loan applications, we did not identify any violations of the substantive provisions of the anti-discrimination laws and regulations.

This document does not purport to describe all information that may be pertinent to KCNB's activities in and service to its community. The reader is encouraged to contact the bank for any further information wanted and/or to review the bank's Public File. The bank's address is listed on the front page of this document. The telephone number is (830) 780-3317.