



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

May 16, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The La Coste National Bank
Charter Number 10189**

**100 S. Front
La Coste, TX 78039**

**Comptroller of the Currency
San Antonio South Field Office
10101 Reunion Place Boulevard Suite 402
San Antonio, TX 78216-4165**

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.

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 The La Coste National Bank, La Coste, Texas, as prepared by The Comptroller of the Currency (OCC), the institution's supervisory agency, as of May 16, 2005. The OCC 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**.

The La Coste National Bank's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The bank's loan-to-deposit ratio is reasonable when compared with similarly situated financial institutions, and given the bank's resources, financial condition, local credit needs, and competition.
- A substantial majority of loans and other lending-related activities are within the bank's assessment area (AA).
- The distribution of loans reflects a reasonable penetration among individuals of different income levels and farms of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA.
- The bank received no CRA-related complaints since the previous CRA examination.

DESCRIPTION OF INSTITUTION

The La Coste National Bank (LNB), a \$28 million financial institution, was chartered in 1912. The bank has one office, located in La Coste, Texas. Facilities consist of a drive-up motor bank, a walk-in-teller lobby, and an automatic teller machine located in front of the main office. LNB offers convenient banking hours and a full range of credit products to meet the credit needs of the community. The bank provides banking services primarily in the rural areas immediately west of San Antonio, in Medina County, and in Atascosa County. Primary lending products include agricultural, residential real estate, and consumer loans.

As of December 31, 2004, net loans represented 21 percent of the LNB's total assets. A summary of the loan portfolio is shown below:

Loan Portfolio Composition		
December 31, 2004		
Loan Category	\$ (000)	%
Agricultural Loans	2,251	38
Residential Real Estate Loans	1,554	26
Consumer Loans	1,088	19
Commercial Loans	1,010	17
Other	5	0
Total	5,908	100

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its AA. The last CRA examination was done on January 29, 2001, and the bank was rated "Satisfactory." There have been no changes in the bank's corporate structure or management team.

DESCRIPTION OF ASSESSMENT AREA (AA)

LNB's AA consists of parts of Medina and Atascosa counties as well as western portions of the San Antonio, Texas Metropolitan Area. The 2000 U.S. Census shows that LNB's entire AA is now a part of the San Antonio, TX Metropolitan Area, and consists of 24 census tracts. There are no low-income census tracts, but four census tracts are designated as moderate-income. Fifteen census tracts are designated middle-income, and five are designated upper-income. The 2000 Census showed the following distribution of families by income level: 16 percent low-income, 18 percent moderate-income, 24 percent middle-income, and 42 percent upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The City of La Coste is centrally located in the AA, and about five miles west of the city limits of San Antonio. Established and family-owned farms surround the community. This reduces the ability of the city to grow in any direction, and limits residential lending opportunities. However, this is changing with recent sales of farming acreage for proposed residential developments. The economy of La Coste remains dependent upon agriculture, but many of the residents commute to San Antonio for employment. The AA as a whole is increasingly

becoming a bedroom community of the city of San Antonio. The economy is considered good, and the largest employers are the Medina Valley School District, Southwestern Bell Corporation, Dumoor Construction, H.B. Zachary Construction, City Public Services, and Citibank Processing. Additional demographic and economic characteristics of the AA are presented in the table below:

Demographic and Economic Characteristics of AA	
Population *	
Number of People	140,074
Number of Families	35,674
Number of Households	44,959
Geographies *	
Number of Census Tracts	24
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	17
% Middle-Income Census Tracts	62
% Upper-Income Census Tracts	21
Median Family Income (MFI)	
2003 HUD-Adjusted MFI	\$47,788
2004 HUD-Adjusted MFI	\$51,500
2005 HUD-Adjusted MFI	\$51,500
Economic Indicators	
Unemployment Rate-AA March 2005	5.1%
Unemployment Rate-State March 2005	5.5%
Unemployment Rate-National March 2005	5.2%
2000 Median Housing Value	67,819
Median Year Built	1983
% Owner-Occupied Housing	69%
% of Households Below Poverty Level	11%

* Per 2000 U. S. Census

The AA includes nine independent banks, five of which have an office within 15 miles of the LNB. Competition is strong for deposit and loan customers in the AA, especially along Highway 90, which runs three miles north of La Coste. The AA also has branches of two large community banks (Broadway National Bank with total assets of \$1.5 billion as December 31, 2004 and Jefferson State Bank with total assets of \$275 million as of December 31, 2004), as well as branches of Wells Fargo, NA and Bank One, NA. All four of these competitors have a significant presence in San Antonio. LNB also competes with credit unions, one of which is the largest in San Antonio.

This office conducted a community contact with a local government official. The contact identified small business and home improvement loans as credit needs in Medina County. The contact made favorable comments about the performance of financial institutions in the communities of La Coste and Castrovilla.

SAMPLING INFORMATION

Our review focused on LNB's three primary product lines: agricultural, residential real estate, and consumer loans. The bank's residential real estate products consist of home purchase, refinance, home equity, and home improvement loans. We sampled 20 agricultural loans, 20 consumer loans, and 11 residential real estate loans where the bank collected income information. For the *Lending to Borrowers of Different Incomes*, *Lending to Farms of Different Sizes*, and *Geographic Distribution of Loans* analyses, we omitted loans that were made outside of the AA. With the exception of the residential real estate loans, which had a small number of originations during the evaluation period, we added loans to get to the minimum sample size of 20 loans per product line. The loans included in the sample originated between January 1, 2003 and May 16, 2005, and were selected at random.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

LNB has demonstrated satisfactory performance in meeting the credit needs of its AA, including low- and moderate-income families and geographies, consistent with its resources, location, and capabilities.

Loan-to-Deposit Ratio

LNB's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance. LNB's LTD ratio is reasonable considering the bank's size, financial condition, and community credit needs. The LTD ratio is impacted by fierce competition from larger institutions inside and outside the AA. We compared LNB's LTD ratio to that of four other small rural banks in the AA that are similarly situated (similarly situated: assets less than \$75 million and no branches in the city of San Antonio). While LNB's average quarterly LTD ratio of 26.78 percent is the lowest of the four similarly situated banks, the trend is positive, comparing favorably to the LTD ratio of 22.46 percent at the prior evaluation period, an increase of 19.23 percent. The table below compares LNB's average LTD ratio to that of the four similarly situated rural banks, and shows the corresponding percentage increase/decrease in the LTD ratio from the prior evaluation period.

Institution	Assets as of 12/31/04 (000s)	Average Quarterly LTD Ratio 03/31/01-12/31/04	Percentage Increase/Decrease Since Prior Evaluation Period
Medina Valley State Bank	71,294	37.25%	-1.92%
Castroville State Bank	70,641	44.41%	8.29%
Lytle State Bank	64,683	46.89%	-1.82%
D'Hanis State Bank	29,988	65.22%	21.86%
La Coste National Bank	27,945	26.78%	19.23%

The bank's low LTD ratio is influenced by other factors including:

- The size of individual loans at LNB is typically much smaller than competing banks. The average loan size is currently less than \$10 thousand. Also, LNB is the only bank in the AA that offers consumer loans in original amounts of less than one thousand dollars, a product that meets a specific community credit need.
- In addition to normal deposit growth, a significant increase occurred during this evaluation period from the sale of two large farm properties where the LNB loans were paid off, but the sale proceeds were deposited in LNB.

Lending in Assessment Area

LNB’s efforts to make loans in its assessment area exceed the standards for satisfactory performance. A substantial majority of the bank’s lending-related activities are within the AA. From our sample, we determined that LNB made 90 percent of loans by number and 90 percent of loans by dollar volume to borrowers located within the AA. The table below shows the bank’s lending activities inside and outside of the AA according to the loan types we sampled.

Total Loans Reviewed								
	INSIDE ASSESSMENT AREA				OUTSIDE ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Agricultural	17	85	482	76	3	15	156	24
Consumer	18	90	174	99	2	10	2	1
Residential RE	11	100	780	100	0	0	0	0
Total Reviewed	46	90	1,436	90	5	10	158	10

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

LNB’s lending pattern to borrowers of different incomes and to farms of different sizes meets the standards for satisfactory performance. The distribution of loans reflects reasonable penetration among individuals of different income levels and among farms of different sizes.

The wide distribution of loans to borrowers with varying income levels reflects favorably on LNB’s efforts to meet the credit needs of farmers and consumers. LNB made a majority of loans to farmers with gross annual revenues of less than \$1 million. The tables below and on the following page show the distribution of LNB’s lending efforts to farmers, residential real estate borrowers, and consumers within the bank’s AA.

Borrower Distribution of Loans To Farms		
Business Revenues	≤\$1,000,000	>\$1,000,000
Demographics		
% of AA Farms	95	5
Loan Sample Results		
% of Bank Loans in AA (by number)	85	15
% of Bank Loans in AA (by \$)	76	24

Distribution of Borrowers by Income Level Residential Real Estate								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	16		18		24		42	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2003	0	0	0	0	18	4	19	55
2004	9	2	0	0	18	7	18	18
2005	0	0	18	14	0	0	0	0
Total	9	2	18	14	36	11	37	73

LNB's record of residential mortgage lending to moderate-income families is reasonable. However, the level of residential real estate lending to low-income borrowers is low, but the 2003 demographic data shows that 11 percent of households in the AA are below the poverty level. Families living below the poverty level are less likely to have the resources to qualify for a residential real estate loan. Our sample contained only one loan for residential mortgages to low-income borrowers. Management's internal analysis identified five additional residential mortgage loans totaling \$186 thousand to low-income borrowers for home repairs or improvements.

Other mitigating factors were also taken into consideration. Because of the location of La Coste, Texas and the farming nature of the community, there is hardly any new construction in La Coste, Texas. Nonetheless, the community contact stated that the community needs business development and home improvement loans.

Distribution of Borrowers by Income Level Consumer								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	16		16		21		47	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2003	10	2	0	0	5	5	0	0
2004	15	14	10	26	5	1	0	0
2005	20	14	15	3	5	2	15	33
Total	45	30	25	29	15	8	15	33

LNB's consumer lending efforts to low- and moderate-income borrowers are very good. The table above reflects very good penetration for low- and moderate-income borrowers. Consumer loans represent just less than 20 percent of total loans and, as such, are weighted less on the overall assessment.

Geographic Distribution of Loans

LNB's efforts to originate loans in the various geographies included in the bank's AA are satisfactory. LNB's geographic distribution of loans reflects an overall reasonable dispersion throughout the AA given the bank's size, primary loan products, and the AA demographics. The tables below and on the following page illustrate the lending distribution of the sampled loans in the AA.

Distribution of Farm Loans by Tract Income Level								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Tracts	0		17		62		21	
% of AA Farms	0		14		56		30	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2003	0	0	5	2	5	7	10	3
2004	0	0	10	7	15	57	30	8
2005	0	0	0	0	5	1	20	15
Totals	0	0	15	9	25	65	60	26

Distribution of Borrowers by Tract Income Level Residential RE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Tracts	0		17		62		21	
% of Owner Occupied Housing	0		12		58		30	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2003	0	0	27	22	9	3	9	37
2004	0	0	27	20	9	6	0	0
2005	0	0	10	5	0	0	9	7
Total	0	0	64	47	18	9	18	44

Distribution of Borrowers by Tract Income Level Consumer								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Tracts	0		17		62		21	
% of Households	0		14		56		30	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2003	0	0	10	2	5	1	5	1
2004	0	0	0	0	10	14	10	18
2005	0	0	10	18	20	6	30	40
Total	0	0	20	20	35	21	45	59

Responses to Complaints

LNB received no consumer complaints regarding its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.