



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

March 27, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bank of the Hills, N.A.
Charter Number 23475
1075 Junction Highway
Kerrville, Texas 78028**

Supervisory Office:

**Office of the Comptroller of the Currency
San Antonio North Field Office
10101 Reunion Place Blvd, Suite 402
San Antonio, Texas 78216-4160**

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 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 CRA performance of **Bank of the Hills, N.A., Kerrville, Texas**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 27, 2000**. 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 ASatisfactory.≡

Bank of the Hills, N.A.'s lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The bank's loan-to-deposit ratio meets the standard for satisfactory performance, averaging 53% since the bank opened in April of 1998.
- The bank makes a majority of its loans within the assessment area.
- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.
- An analysis of the bank's geographic distribution of loans would not be meaningful. The assessment area includes no low- or moderate-income block numbering areas (BNA's).
- The bank received no CRA-related complaints since opening.

DESCRIPTION OF INSTITUTION

Bank of the Hills, N.A., (BOH) a \$52 million financial institution, is the only commercial bank headquartered in the assessment area. BOH opened for business on April 4, 1998, with two locations in Kerrville, Texas. BOH has not opened or closed any branches since that date. The bank is not part of a holding company and is locally owned. The bank owns one automatic teller machine, located at the main office. BOH is a full service bank and offers a variety of loan products with an emphasis on residential real estate, commercial real estate, and consumer loans.

The bank's financial condition, size, and area economic conditions allow it to help meet the credit needs of its assessment area. This performance evaluation represents BOH's first CRA examination. There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs in the assessment area.

As of December 31, 1999, net loans represent 56% of the BOH's total assets. A summary of the loan portfolio is shown below:

Loan Portfolio Composition As of December 31, 1999		
Loan Type	Dollar Volume (000's)	% of Loan Portfolio
Commercial Real Estate	12,004	41%
1-4 Family Residential	8,288	28%
Commercial	5,891	20%
Consumer	2,682	9%
Other	512	2%
Total	29,377	100%

DESCRIPTION THE ASSESSMENT AREA

The bank's assessment area (AA) consists of Kerr County and includes eight BNA's. Five BNA's are designated middle-income, and three are upper-income. There are no low- or moderate-income BNA's in the AA.

Kerrville is the largest town in Kerr County with a population of over 19,000. Over 36,000 people live in Kerr County. Kerrville is located approximately 65 miles northwest of San Antonio. Kerrville enjoys a diverse economy driven by the health care industry, retail, and manufacturing. The local hospital and school district are major employers in the area. The unemployment rate for Kerr county is a low 2.4%. Kerrville is not part of a metropolitan statistical area. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies.

The Texas 1999 nonmetropolitan median family income is \$33,900. Kerr County has an estimated 1999 median family income of \$23,907. Of all families living in the AA, 15% are low-income, 17% are moderate-income, 24% are middle-income, and 44% are upper-income.

Examiners conducted a community contact with the local chamber of commerce. The contact identified no unmet credit needs in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management has demonstrated satisfactory performance in meeting the credit needs of the AA.

Loan-to-Deposit Ratio

The bank's level of lending is satisfactory compared to other rural community banks located in surrounding counties. Since the bank opened in April of 1998, the bank's quarterly average loan-to-deposit ratio equals 53%. This compares to the average loan-to-deposit ratio of 45% for the six rural community banks headquartered in surrounding counties. Of the seven banks, BOH has the fourth highest average loan-to-deposit ratio. The other banks have average loan-to-deposit ratios ranging from 35% to 63%. BOH's loan-to-deposit ratio has steadily grown since the bank opened. As of December 31, 1999, BOH has the second highest loan-to-deposit ratio of the seven banks at 61%.

Lending in the Assessment Area

Based on bank-collected information on all loans the bank has made since opening, BOH extends a majority of its loans within the assessment area. The following table shows the bank's lending pattern in and out of the AA by loan type. Examiners verified the bank's information. For this analysis and the analysis of distribution by income, commercial and commercial real estate loans were combined.

Loans in Assessment Area						
Loan Type	Number In	Number Out	Percent In	Dollar Volume In	Dollar Volume Out	Percent In
Residential	78	41	66	7,748	5,433	59
Consumer	333	41	89	12,133	1,343	90
Commercial	157	35	82	21,003	10,786	66

Lending to Borrowers of Different Incomes and Businesses of Different Size

BOH meets the standards for satisfactory performance with a reasonable distribution of loans to individuals with different income levels and businesses of different sizes. BOH's primary product lines are commercial loans, residential real estate loans, and consumer loans. The distribution generally reflects the income characteristics of the AAs. A comparison of the income information to the AA demographic data is detailed in the following tables. The table includes loans made by the bank since it opened in April of 1998 in the AA where the bank obtained income information. Dollars are shown in thousands.

Distribution of Consumer and Residential Loans by Income Group										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
Area Demographic Characteristics	15%		17%		24%		44%		100%	
# of Families	1,563		1,671		2,442		4,507		10,183	
Loan Type by #	#	%	#	%	#	%	#	%	#	%
Residential	3	4	2	3	12	16	56	77	73	100
Consumer	38	12	77	25	75	24	121	39	311	100
Loan Type by \$	\$	%	\$	%	\$	%	\$	%	\$	%
Residential	143	2	119	2	935	13	5,991	83	7,188	100
Consumer	1,189	10	3,025	27	2,493	22	4,674	41	11,381	100

The bank adequately lends to businesses of different sizes, with a significant number of loans made to small businesses. Examiners verified bank-collected data on loans made in the assessment area since opening where the bank obtained income information. BOH made 23% of its commercial loans to businesses with gross annual revenues under \$100,000 and 74% of its loans to business with gross annual revenues under \$1,000,000. A breakdown of BOH's commercial and commercial real estate loans by gross annual revenues follows.

Distribution of Commercial Loans by Gross Revenues				
	# of loans	%	\$ of loans (000)	%
Under \$50,000	26	16	1,991	10
From \$50,001 to \$100,000	23	14	2,580	13
From \$100,001 to \$250,000	43	27	3,966	20
From \$250,001 to \$500,000	23	14	3,528	18
From \$500,001 to \$1,000,000	23	14	2,662	13
\$1,000,001 and over	22	14	5,175	26
Total	160	100	19,902	100

Geographic Distribution of Loans

An analysis of the bank's geographic distribution of loans would not be meaningful. The assessment area contains no low- or moderate-income BNA's.

Response to Complaints

BOH has not received any complaints or public comments regarding its CRA performance during this evaluation period.

Record of Compliance with Anti-discrimination Laws

Based on our review, the bank is in compliance with the provisions of antidiscrimination laws and regulations. No practices were detected which are intended to discourage applicants from applying for the types of credit the bank offers. Our sample focused on consumer vehicle purchase applications and consisted of a comparative analysis between five denied female applicants and 20 male applicants. Examiners found no evidence of disparate treatment.

This document does not purport to describe all the information that may be pertinent to the bank's activities in, and service to, its community. The reader is encouraged to contact Bank of the Hills, N.A. for more information and/or to review its CRA Public File. The bank's address is listed on the front of this document. The main telephone number is (830) 895-2265.