

PUBLIC DISCLOSURE

October 21, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank
Charter Number 17002

1502 Avenue M
Hondo, TX 78861

Office of the Comptroller of the Currency

San Antonio South Field Office
10001 Reunion Place, Suite 250
San Antonio, TX 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.

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

Community National Bank's (CNB) lending performance reflects a satisfactory response to community credit needs in its assessment area (AA). Factors that support the overall rating include:

- CNB's quarterly average loan-to-deposit (LTD) ratio of 66.18 percent is reasonable and meets the standard for satisfactory performance.
- CNB meets the standards for satisfactory performance with a majority of loans originating in its AA.
- CNB meets the standards for satisfactory performance with reasonable distribution of loans to borrowers of different incomes and businesses of different sizes.
- CNB does not meet the standard for satisfactory performance with poor dispersion of credit within its AA. The bank's Lytle branch is located within three counties (Medina, Bexar, and Atascosa). However, the area south of the branch is mostly ranchland and undeveloped areas and the bank does not conduct lending in these moderate-income census tracts. In addition, the county of Atascosa includes the towns of Jourdanton and Pleasanton, which are heavily banked. CNB conducts their primarily lending in the immediate surroundings in the city of Lytle.
- There were no Community Reinvestment Act (CRA) complaints filed during this rating period.

SCOPE OF EXAMINATION

CNB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

Our examination scope covered the time period from May 19, 2008, the date of the prior Performance Evaluation, to October 21, 2013, the date of the current examination. We identified residential, commercial, and consumer loans to be the bank's primary loan products. To evaluate CNB's residential lending performance, we reviewed Home Mortgage Disclosure Act (HMDA) data filed by the bank for the years 2011, 2012, and 2013. To evaluate commercial and consumer lending we selected a random sample of 80 loans originated between 2011 and 2013. The commercial and consumer sample consisted of 40 loans for each type.

DESCRIPTION OF INSTITUTION

CNB is an intrastate bank headquartered in Hondo, Texas. CNB was chartered in 1981 and is a wholly owned subsidiary of Medina County Bancshares, Inc., a one-bank holding company. As of September 30, 2013, CNB had total assets of \$178 million and tier one leverage capital of \$17 million. The bank's home office is located in Hondo and

three branch offices located in Castroville, Lytle, and LaCoste. All locations have drive-up facilities and ATMs. One additional stand-alone ATM is located in Devine. CNB was selected by the FDIC to purchase LaCoste National Bank, which became a failed bank on February 19, 2010. The LaCoste branch of CNB opened for business on February 22, 2010. This became their fourth full service location. CNB offers a full range of deposit and loan products and services commensurate with its size. The bank's lending strategy focuses on commercial and residential lending.

As of September 30, 2013, CNB reported net loans of \$91 million, which represents 51 percent of total assets. The loan portfolio composition is as follows:

Loan Portfolio Summary by Loan Product September 30, 2013	
Loan Category	% of Outstanding Dollars
Commercial	51.10%
Residential	24.66%
Consumer	9.23%
Agriculture	7.67%
Farmland	6.49%
Other loans	0.85%
Total	100%

Source: September 30, 2013 Consolidated Report of Condition.

The bank was rated "Satisfactory" at the previous CRA examination dated May 19, 2008. No legal impediments or other factors hinder the ability of CNB to provide credit needs in its AA.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA changed with the publishing of the 2010 U.S. Census data. Prior to the 2010 census, the bank defined its AA consisting of Medina County totaling six census tracts. After the 2010 census, census tracts were realigned and totaled eight census tracts in Medina County. This included the addition of a middle- and upper-income census tract in Medina County.

The bank's current AA is defined as all of Medina County and Atascosa, two contiguous counties. Communities located within the AA include Hondo and Castroville located in Medina County. Other communities include Pleasanton and Lytle (partially) located in Atascosa County. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. Based on the 2010 Census data, the AA has a population of 90,917. There are 34,745 housing units in the AA of which 65 percent are owner-occupied, 20 percent renter-occupied, and 15 percent are vacant. The local economy is based on retail trade and agriculture. Economic conditions are satisfactory and the AA continues to benefit economically due to its proximity to San Antonio. Competitors in the area include several local institutions, a credit union, and branches of larger, regional financial institutions.

The following table shows demographic and economic information on the bank’s assessment area based on the 2000 census.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA (2000 Census Data)	
<i>Population</i>	
Number of Families	20,345
Number of Households	25,726
<i>Geographies</i>	
Number of Census Tracts	14
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	21.43%
% Middle-Income Census Tracts	78.57%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 Census MFI for AA	\$39,094
2012 HUD-Adjusted MFI	\$60,800
2013 HUD-Adjusted MFI	\$61,300
<i>Economic Indicators</i>	
Unemployment Rate	3.29%
2011 Median Housing Value	\$58,246
% of Households Below Poverty Level	17.16%

The following table illustrates the AA’s demographic and economic characteristics used to analyze the bank’s lending activity for 2012.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA (2010 Census Data)	
<i>Population</i>	
Number of Families	23,142
Number of Households	29,627
<i>Geographies</i>	
Number of Census Tracts	16
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	18.75%
% Middle-Income Census Tracts	75.00%
% Upper-Income Census Tracts	6.25%
<i>Median Family Income (MFI)</i>	
2010 Census MFI for AA	\$54,204
2012 HUD-Adjusted MFI	\$60,800
2013 HUD-Adjusted MFI	\$61,300
<i>Economic Indicators</i>	
Unemployment Rate	5.32%
2011 Median Housing Value	\$96,930
% of Households Below Poverty Level	16.83%

To gather current information on the nature of the community and potential lending opportunities within the AA, we contacted a community service agency that includes Medina County in its target area. This contact indicated satisfactory involvement by the local financial institutions and no specific credit needs were identified.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

CNB demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products originated since the previous CRA examination: commercial loans, residential loans, and consumer loans. Our sample of loans was selected to determine the extent of lending within the AA and the distribution of loans by borrower income and by the amount of business revenue. We also reviewed the bank's geographic lending distribution.

Loan-to-Deposit Ratio

CNB's quarterly average LTD ratio since the prior examination of 66.18 percent is reasonable and meets the standard for satisfactory performance. CNB's quarterly average LTD was the third highest as compared to six of the other community banks located in the AA. The average LTD ratio for the other institutions was 47.90 percent, with a high average LTD of 71.43 percent and a low average LTD of 21.43 percent. The following table reflects CNB's LTD ratio compared to the other community banks in the AA.

Institution	Assets as of 6/30/2013 (000s)	Average Quarterly LTD Ratio 6/30/2013
Community National Bank – Hondo, TX	\$174,266	66.18%
D'Hanis State Bank	\$45,259	71.43%
The Hondo National Bank	\$201,753	68.31%
Castroville State Bank – Castroville	\$126,132	46.72%
Lytle State Bank of Lytle	\$79,797	45.20%
Jourdanton State Bank	\$145,688	34.30%
Atascosa National Bank	\$89,130	21.43%

Source: Quarterly Consolidated Report of Condition Information.

Lending in Assessment Area

CNB meets the standards for satisfactory performance with a majority of loans originating in its AA. We reviewed the banks HMDA data for residential loans and a sample of the commercial and consumer loans originated since the prior evaluation.

The bank extends a majority of its home loans to borrowers located in the AA by number and dollar volume. The 2000 Census data shows that 68 percent of the number of loans and 65 percent of the dollar of loans were made to borrowers in the AA. The 2010 Census data shows that almost 73 percent of the number of loans and 69 percent of the dollar of loans were made to borrowers in the AA.

The following table illustrates loans made in and out of the AA in 2011 by both number and dollar volume.

Lending in AA (2011)										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	60	66.67	30	33.33	90	6,779	62.43	4,079	37.57	10,858
Home Improvement	6	60.00	4	40.00	10	256	60.52	167	39.48	423
Refinance	30	73.17	11	26.83	41	4,379	69.00	1,967	31.00	6,346
Commercial	16	80.00	4	20.00	20	1,527	67.65	730	32.35	2,257
Consumer	16	80.00	4	20.00	20	56,724	78.19	15,826	21.81	72,550
Totals	128	70.72	53	29.28	181	69,665	75.37	22,769	24.63	92,434

Source: Data reported under HMDA and loan sample

The table below displays the bank's record of lending in and out of the AA for loans extended in 2012 and 2013.

Lending in AA (2012-2013)										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	58	75.32	19	24.68	77	10,126	72.31	3,877	27.69	14,003
Home Improvement	2	66.67	1	33.33	3	135	21.77	485	78.23	620
Refinance	30	68.18	14	31.82	44	3,785	67.59	1,815	32.41	5,600
Commercial	13	65.00	7	35.00	20	1,234	67.28	600	32.72	1,834
Consumer	17	85.00	3	15.00	20	45,616	88.92	5,682	11.08	51,298
Totals	120	73.17	44	26.83	164	60,896	83.02	12,459	16.98	73,355

Source: Data reported under HMDA and loan sample

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

CNB meets the standards for satisfactory performance with reasonable distribution of loans to borrowers of different incomes and businesses of different sizes. The following narratives and tables reflect our findings.

The bank's record of residential real estate lending to low- and moderate-income individuals demonstrates reasonable penetration. Based on 2000 U.S. Census data, in 2011 the bank fell under area demographics for low-income borrowers, however met or exceeded area demographics for moderate-income borrowers for home purchase and home improvement loans.

Based on 2010 U.S. Census data, in 2012 and 2013, the number of loans to low income borrowers demonstrated poor penetration. However, the bank demonstrated reasonable penetration to moderate-income borrowers given home improvement ratio exceeded area demographics and the number of refinances met area demographics. The following table lists the results of residential real estate loans made to borrowers in the bank's AA.

Borrower Distribution of Residential Real Estate Loans by Income Level in the AA (2011)								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	25.26	10.00	19.72	16.67	23.00	20.00	32.02	48.33
Home Improvement	25.26	16.67	19.72	33.33	23.00	33.33	32.02	16.67
Refinancing	25.26	3.33	19.72	3.33	23.00	30.00	32.02	60.00

Source: HMDA Data

Borrower Distribution of Residential Real Estate Loans by Income Level in the AA (2012-2013)								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	25.03	3.45	18.19	6.90	21.88	20.69	34.90	62.07
Home Improvement	25.03	0.00	18.19	50.00	21.88	0.00	34.90	50.00
Refinancing	25.03	6.67	18.19	16.67	21.88	23.33	34.90	50.00

Source: HMDA Data

Business Loans

CNB’s record of commercial lending demonstrates excellent penetration. Per the 2000 Census information, 68.14 percent of area businesses reported gross annual revenues of less than \$1 million. CNB made 85 percent of the 20 commercial loans we sampled to businesses with revenues less than \$1 million.

The following table illustrates loans made in and out of the AA in 2011 by both number and dollar volume.

Table 2A Borrower Distribution of Loans to Businesses in AA (2011)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68.14%	1.68%	30.18%	100%
% of Bank Loans in AA by #	85.00	15.00	0.00	100%
% of Bank Loans in AA by \$	82.54	17.46	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

CNB’s record of commercial lending demonstrates excellent penetration. Per the 2010 Census information, 71.52 percent of area businesses reported gross annual revenues of less than \$1 million. CNB made 95 percent of the 20 commercial loans we sampled to businesses with revenues less than \$1 million.

The table below displays the bank’s record of lending in and out of the AA for loans extended in 2012 and 2013.

Table 2A				
Borrower Distribution of Loans to Businesses in AA (2012-2013)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.52%	2.36%	26.11%	100%
% of Bank Loans in AA by #	95.00%	5.00%	0.00%	100%
% of Bank Loans in AA by \$	93.55%	6.45%	0.00%	100%

Source: Loan sample; Dunn and Bradstreet data.

Consumer Loans

Our analysis of consumer lending activity to borrowers with low- and moderate-income reflects excellent penetration. Based on the 2000 U.S. Census data, 30 percent of the number of loans in our sample were originated to borrowers with low-income, compared to the total number of low-income households in the AA of 21.25 percent. Our sample of consumer loans reflected loans to moderate-income borrowers of 30 percent, which exceeds the ratio of the total number of moderate-income households of 14.43 percent. The following table reflects the record of consumer lending in the bank’s AA during the evaluation period.

Table 2B								
Borrower Distribution of Consumer Loans in AA (2011)								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	21.25	30.00	14.43	30.00	17.45	15.00	46.87	25.00

Source: Loan Sample; 2000 U.S. Census Data.

Based on the 2010 U.S. Census data, the bank demonstrates excellent penetration to borrowers with low- and moderate-income levels. Fifty percent of the number of loans in our sample were originated to borrowers with low-income compared to the total number of low-income households in the AA of 26.22 percent. In addition, 20 percent of the number of loans in our sample originated to borrowers with moderate-income compared to the total number of moderate-income households in the AA of 17.23 percent.

Table 2B								
Borrower Distribution of Consumer Loans in AA (2012-2013)								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	26.22	50.00	17.23	20.00	17.93	25.00	38.62	5.00

Source: Loan sample; 2010 U.S. Census data.

Geographic Distribution of Loans

Overall, the bank demonstrates poor dispersion of credit among its AA. The bank does not have any low-income census tracts in its AA. The bank's three moderate-income census tracts are located in Atascosa County given their Lytle branch is located there. However, if viewed on a map, the town of Lytle is between three counties—Bexar, Medina, and Atascosa and is located in a middle-income census tract. The bank primarily conducts its business in Medina County, as this is where their other branches are located. During the examination, the AA was updated to reflect all of Medina County and a portion of Atascosa County, where the bank primarily lends.

Home Loans

CNB's geographic distribution of home loans in this AA reflects an overall poor dispersion throughout CTs of different income levels. Based on 2000 U.S. Census data, 9.71 percent of AA owner occupied housing is located in a moderate-income census tract. The bank made 1.67 percent of its home purchase loans in a moderate-income census tract. The bank did not make any loans for home improvement or refinance loans in a moderate-income census tract. Based on 2010 U.S. Census data, 17.58 percent of AA owner occupied housing is located in a moderate-income census tract. The bank made 1.72 percent of its home purchase and 6.67 percent of refinance loans in moderate-income census tracts and is significantly below the ratio.

The poor distribution of home loans is reasonable given that the moderate census tracts are not in areas where the bank typically lends. These moderate census tracts are in portions of Atascosa County that are undeveloped areas or areas which are heavily banked by other institutions.

Table 3 below gives further detail of the bank's performance as compared to the percentage of owner-occupied housing units in each CT income level.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	9.71	1.67	90.29	98.33	0.00	0.00
Home Improvement	0.00	0.00	9.71	0.00	90.29	100.00	0.00	0.00
Refinance	0.00	0.00	9.71	0.00	90.29	100.00	0.00	0.00

Source: Data reported under HMDA; U.S. Census data.

Table 3 Geographic Distribution of Residential Real Estate Loans in AA (2012-2013)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	17.58	1.72	73.29	84.48	9.14	13.79
Home Improvement	0.00	0.00	17.58	0.00	73.29	100.00	9.14	0.00
Refinance	0.00	0.00	17.58	6.67	73.29	73.33	9.14	20.00

Source: Data reported under HMDA; U.S. Census data.

Business Loans

CNB’s geographic distribution of business loans reflects poor dispersion. Based on 2000 U.S. Census demographics, 5.03 percent of AA businesses/farms are located in a moderate-income census tract. Based on 2010 U.S. Census demographics, 9.47 percent of AA businesses/farms are located in a moderate-income census tract. The bank did not make any loans in the moderate-income census tract based on our loan sample.

Table 3A below gives further detail of the bank’s performance as compared to the percentage of owner-occupied housing units in each CT income level.

Table 3A Geographic Distribution of Loans to Businesses in AA (2011)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of # of Loans	% of AA Businesses/Farms	% of # of Loans	% of AA Businesses/Farms	% of # of Loans	% of AA Businesses/Farms	% of # of Loans
Businesses	0.00	0.00	5.03	0.00	94.97	100	0.00	0.00

Source: Loan sample; Dunn and Bradstreet data.

Table 3A Geographic Distribution of Loans to Businesses in AA (2012-2013)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of # of Loans	% of AA Businesses/Farms	% of # of Loans	% of AA Businesses/Farms	% of # of Loans	% of AA Businesses/Farms	% of # of Loans
Businesses	0.00	0.00	9.47	0.00	79.90	90.00	10.63	10.00

Source: Loan sample; Dunn and Bradstreet data.

Consumer Loans

Overall, CNB’s geographic distribution of consumer loans reflects poor dispersion. Based on 2000 U.S. Census demographics, 9.9 percent of AA households are located in a moderate-income census tract. The bank fell below area demographics at five

percent of the number of loans made in the moderate-income census tract. Based on 2010 U.S. Census demographics, 17 percent of AA households are located in a moderate-income census tract. The bank did not make any consumer loans to individuals located in a moderate-income census tract.

Table 3B below gives further detail of the bank’s performance as compared to the percentage of owner-occupied housing units in each CT income level.

Table 3B Geographic Distribution of Consumer Loans in AA (2011)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	0.00	0.00	9.90	5.00	90.10	95.00	0.00	0.00

Source: Loan sample; 2000 U.S. Census data

Table 3B Geographic Distribution of Consumer Loans in AA (2012-2013)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	0.00	0.00	17.10	0.00	74.36	100.00	8.53	0.00

Source: Loan sample; 2010 U.S. Census data.

Responses to Complaints

CNB has not received any consumer complaints related to its CRA performance during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.