



## **PUBLIC DISCLOSURE**

January 3, 2017

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Guadalupe National Bank  
Charter Number 24826

1309 Bandera Highway  
Kerrville, TX 78028

Office of the Comptroller of the Currency  
San Antonio Field Office  
10001 Reunion Place, Suite 250  
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 the 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.**

The major factors that support the institution's rating include:

- The quarterly average loan-to-deposit (LTD) ratio is more than reasonable.
- A substantial majority of loans, by number and dollar volume, originated inside the assessment area (AA).
- The distribution of loans to businesses of different sizes and to borrowers of different incomes reflects reasonable penetration.
- The geographic distribution of loans reflects reasonable dispersion.

## **SCOPE OF EXAMINATION**

We evaluated Guadalupe National Bank's (GNB) lending activities using interagency Small Bank CRA procedures. The scope covered the period from January 1, 2014, to September 30, 2016. We analyzed lending activity during this evaluation period and identified residential loans and business loans as primary lending products.

To evaluate the distribution of loans, we used the demographics and geographies related to the 2010 Census as it applied to the years from 2014 through 2016. The 2015 Office of Management and Budget (OMB) Metropolitan Area geographic boundary revisions (*OMB Bulletin No. 15-01*) became effective for CRA purposes on July 15, 2015. Since the last CRA examination, GNB added a new branch expanding its AA delineation to include Gillespie County. In addition, a middle-income census tract (CT) located in Kerr County was divided in two with one CT designated moderate-income and the other remaining middle-income. Due to the change, this evaluation also includes a geographic distribution analysis.

For the lending test, we combined the two AAs since they are adjacent counties not in a metropolitan statistical area (MSA). To evaluate residential and business loans, we selected a sample of 20 loans for each product resulting in a total sample of 40 loans. We used the original sample to determine lending inside the AA, and then replaced loans outside the AA with loans inside the AA to assess borrower and geographic distribution.

## **DESCRIPTION OF INSTITUTION**

GNB, a full service intrastate bank headquartered in Kerrville, Texas, is wholly-owned by Relationship Financial Corp., a one-bank holding company headquartered in Kerrville. GNB opened in 2008 with two offices located in Kerrville. In 2015, a loan processing office located in Fredericksburg, was converted into a bank branch that had limited retail banking operations due to its size. In 2016, GNB received regulatory approval to expand the Fredericksburg branch and full operations are expected to start in February 2017.

The newly expanded branch will have more personnel, offer all retail and commercial banking products, and house a drive-through facility and a deposit-taking automated teller machine (ATM). All three bank locations are open Monday through Friday; and have ATMs and drive-through facilities. To better serve the community, GNB offers extended hours on Friday, and the drive-through facilities are open on Saturday.

As of September 30, 2016, GNB reported total assets of \$135 million. Tier 1 capital totaled \$13 million or 9.5% of total assets. Net loans totaled \$92.8 million, and deposits totaled \$122 million. The following table shows the breakdown of the loan portfolio.

<b>Loan Portfolio Composition as of September 30, 2016</b>		
<b>Loan Category</b>	<b>Dollar Volume (000's)</b>	<b>Percentage</b>
Residential	45,807	48%
Business (Commercial)	28,027	30%
Agricultural/Farm	15,773	17%
Consumer	2,848	3%
Other	1,713	2%
<b>Total</b>	<b>94,168</b>	<b>100%</b>

Source: September 30, 2016 Call Report

Based on its financial condition and size, there are no legal, financial, or other factors that inhibit GNB's ability to meet credit needs in its AA. The current business strategy is continuing to serve the local community, and organically grow the retail and commercial loan portfolios. With the new branch expansion in Fredericksburg, management hopes to grow core deposits and expand its retail presence in Gillespie County. The prior CRA examination, dated August 22, 2011, assigned an overall "Satisfactory" rating to the lending performance of the bank.

## **DESCRIPTION OF ASSESSMENT AREA(s)**

GNB has two AAs: Kerr County and Gillespie County. The AAs meet regulatory requirements, do not reflect discrimination, and do not arbitrarily exclude any low or moderate income (LMI) geographies. Both AAs are comprised of the entire county and are located adjacent to each other. We completed full-scope reviews on both AAs.

### **Kerr County Assessment Area**

This AA includes all ten CTs in Kerr County; one moderate-income CT, six middle-income CTs, and three upper-income CTs. There are no low-income CTs in Kerr County. Subsequent to the last CRA examination, two CTs (9603 and 9604) were divided in two. Newly delineated CT 9604.01 was designated moderate-income, and the remaining divided CTs remained middle-income. The one moderate-income CT is the only LMI tract in both GNB's AAs. The September 2016 unemployment rate for Kerr County is 4%, which is below the State of Texas unemployment rate of 4.8% and the national unemployment rate of 5% for the same period. Pertinent information about the AA is shown in the following table.

Demographic Information for the Kerr County Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	10	0%	10%	60%	30%
Population by Geography	49,625	0%	4%	71%	25%
Owner-Occupied Housing Units by Geography	23,307	0%	3%	69%	29%
Businesses by Geography	4,631	0%	2%	76%	22%
Farms by Geography	253	0%	1%	73%	26%
Family Distribution by Income Level	14,235	17%	18%	19%	46%
Household Distribution by Income Level	20,285	2%	16%	29%	53%
Census Median Family Income (MFI)	\$53,533	Median Housing Value		\$129,734	
HUD – Adjusted MFI: 2014	\$51,600	Households Below Poverty Level (%)		12.18%	
HUD – Adjusted MFI: 2015	\$52,800	Unemployment Rate (%) *updated		4%	
HUD – Adjusted MFI: 2016	\$52,400				

Source: 2010 US Census, 2014 – 2016 FFIEC updated MFI, and Bureau of Labor Statistics

Although a majority of the Kerr County population resides in Kerrville, residences are spread throughout the county. Major highways through this area include IH10 AND TX 16. Other local roadways provide excellent access to Kerrville from other regions of Texas and beyond. Airport facilities are also high quality, but there is no commercial service to Kerr County. San Antonio International Airport is just over one hour to the east. Rail transportation is not available.

Major employers include Peterson Hospital, Kerrville State Hospital, James Avery Craftsman, Kerrville VA Hospital, and Schreiner University, with most jobs concentrated in Kerrville. The county has prospered from its mix of agriculture, tourism, health care, and manufacturing, and has become a site for retirement communities and country retreats for the wealthy. GNB is an active member of many community organizations, and also sponsors many local sports teams, and community events.

Competition in the county, particularly in Kerrville which has the largest population, continues to be strong. The June 30, 2016 FDIC deposit market share report shows twelve banks in Kerr County. Wells Fargo Bank, N.A. ranks first with a deposit market share of 28%; Comerica Bank ranks second with 15%. GNB ranks fifth with 9%. In addition, there are four credit unions that also compete for customers.

A local community contact familiar with the area indicated the bank is well regarded in the community, actively involved in community events, and has a reputation of being a “local community bank”. The contact indicated the largest needs in the community are affordable housing and loans to small businesses. The contact felt banks could find opportunities to participate in projects to build affordable housing. The contact said based on experience and what has been seen, it is very difficult for a small business owner to get a loan from any bank. Nevertheless, the contact believes local banks serve the community adequately and have provided services needed in the community.

## Gillespie County Assessment Area

This AA includes five CTs - two middle-income and three upper-income. There are no LMI tracts in this AA. The September 2016 unemployment rate for Gillespie County was 3.1%, which is below the State of Texas unemployment rate of 4.8% and the national unemployment rate of 5% for the same period. Pertinent information about the AA is shown in the following table:

Demographic Information for the Gillespie County Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	5	0%	0%	40%	60%
Population by Geography	24,837	0%	0%	31%	69%
Owner-Occupied Housing Units by Geography	7,860	0%	0%	32%	68%
Businesses by Geography	2,825	0%	0%	33%	67%
Farms by Geography	263	0%	0%	32%	68%
Family Distribution by Income Level	7,323	12%	13%	20%	55%
Household Distribution by Income Level	10,413	17%	12%	17%	54%
Census Median Family Income (MFI)	\$56,604	Median Housing Value		\$194,810	
HUD – Adjusted MFI: 2014	\$51,600	Households Below Poverty Level (%)		9.58%	
HUD – Adjusted MFI: 2015	\$52,800	Unemployment Rate (%)*Updated		3.1%	
HUD – Adjusted MFI: 2016	\$52,400				

Source: 2010 US Census, 2014 – 2016 FFIIEC updated MFI, and Bureau of Labor Statistics

Slightly less than half of the Gillespie County population resides in Fredericksburg, the county seat. However, a strong majority of non-agricultural jobs are concentrated in Fredericksburg. Major highways through this area include U.S. Highway 290, U.S. Highway 87, and TX Highway 16. Interstate I-10 is accessible via Highway 16 and Highway 87. Other local roadways provide excellent access to Fredericksburg from other regions of Texas and beyond. Airport facilities are also high quality, but there is no commercial service to Gillespie County. San Antonio International Airport is just over one hour to the east. Rail transportation is not available.

Major employers include Hill Country Memorial Hospital, Knopp Nursing/Retirement Homes, Fredericksburg Independent School District, Wal-Mart, and H.E.B Food Store. The local tourism industry is growing rapidly, and much of the population is employed by small business owners in the tourism industry. There are a number of vineyards, breweries, and bed and breakfast inns in this AA, which attract tourists from all over Texas in particular San Antonio, Austin, and the Dallas/Fort Worth metroplex. Just like Kerr County, Gillespie County county has prospered from its mix of agriculture, tourism, health care, and manufacturing, and has become a site for retirement communities and country retreats for the wealthy. GNB is an active member of many community organizations, and also sponsors many local sports teams, and community events in this AA.

Banking competition in this AA, particularly in Fredericksburg, continues to be strong. The June 30, 2016 FDIC deposit market share report shows ten banks in Gillespie County. In addition, there are two credit unions who also compete for customers. The FDIC report ranks Security State Bank & Trust first with a deposit market share of 28% followed closely by JPMorgan Chase Bank, N.A. with a market share of 25%. GNB ranks

last with a nominal 0.17% market share. The primary reason for GNB’s low market share is the limited retail services offered from when the branch opened in 2015 through 2016. GNB expanded the branch and management expects the deposit base to grow significantly.

An interview with a local community contact revealed the overall community view of GNB is positive. It “came in strong” by making its presence known through community events and advertising. In addition, the bank is actively involved in community events, and a member of several local business organizations. The contact stated there are opportunities for banks to participate in commercial projects, such as the one to expand the university center. The largest need in the community is affordable housing. Local business growth has attracted individuals into the area, including LMI individuals and families, however, housing opportunities are limited. The high price of single-family residences results in many families, including LMI families, renting or living in trailer/RV parks. The contact said there were opportunities for banks to help individuals own their own home.

**Combined Kerr and Gillespie County Assessment Areas**

In order to complete the lending test, we combined the two AAs as they are counties adjacent to each other with similar demographics. The following table provides pertinent demographic information for the combined AAs:

Demographic Information: Combined Gillespie County and Kerr County Assessment Areas					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	15	0%	7%	53%	40%
Population by Geography	74,462	0%	7%	53%	40%
Owner-Occupied Housing Units by Geography	22,794	0%	2%	56%	42%
Businesses by Geography	2,825	0%	0%	33%	67%
Farms by Geography	263	0%	0%	32%	68%
Family Distribution by Income Level	21,558	15%	16%	20%	49%
Household Distribution by Income Level	30,698	19%	14%	18%	49%
Census Median Family Income (MFI)	\$56,604	Median Housing Value		\$156,766	
HUD – Adjusted MFI: 2014	\$51,600	Households Below Poverty Level (%)		11.3%	
HUD – Adjusted MFI: 2015	\$52,800	Unemployment Rate (%)*updated		3.5%	
HUD – Adjusted MFI: 2016	\$52,400				

Source: 2010 US Census, 2014 – 2016 FFIEC updated MFI, and Bureau of Labor Statistics

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

**Loan-to-Deposit Ratio**

GNB’s quarterly average LTD ratio is more than reasonable given its size, condition, and credit needs within the AA, and meets the standards for outstanding performance. During

the evaluation period, the bank's LTD ratio ranged from a low of 70% to a high of 82% with a quarterly average of 75%. To assess GNB's performance, we compared its quarterly average LTD ratio to seven similarly situated institutions. As reflected in the following table, the average LTD ratios for the seven institutions ranged from 58% to 85% (no ranking intended or implied). The overall quarterly average LTD ratio for the seven institutions is 66%.

<b>INSTITUTION</b>	<b>ASSETS (000s) As of 9/30/2016</b>	<b>AVERAGE QUARTERLY LTD RATIO From 9/30/2016 to 9/30/2016</b>
Texas Heritage Bank	\$139,177	85%
Guadalupe National Bank	\$135,422	75%
Texas Hill Country Bank	\$94,743	69%
Security State Bank & Trust	\$931,669	67%
Llano National Bank	\$157,988	64%
The Hondo National Bank	\$244,624	60%
Community National Bank	\$197,446	59%
Arrowhead Bank	\$162,020	58%

Source: Quarterly Call Report data from September 30, 2011 through September 30, 2016.

## Lending in Assessment Area

GNB originated a substantial majority of loans inside its AA, meeting the standard for outstanding performance. The following table reflects the percentages, by number and dollar volume, of loans originated inside the AA.

<b>Lending in Kerr/Gillespie County Assessment Areas</b>										
<b>Loan Type</b>	<b>Number of Loans</b>					<b>Dollars of Loans (000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
Home Loans	17	85%	3	15%	20	\$2,636	77%	\$785	23%	\$3,421
Business Loans	17	85%	3	15%	20	\$1,227	76%	\$386	24%	\$1,612
Totals	34	85%	6	15%	40	\$3,773	85%	\$683	15%	\$4,416

Source: Loan trial balance from September 30, 2016 and Business/Retail loan samples

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

The distribution of loans reflects reasonable penetration to businesses of different sizes and to individuals of different income levels.

## Business Loans

For the distribution of business loans, we compared data from the business loan sample to demographic data from Dunn & Bradstreet. As reflected in the following table, the distribution of business loans is adequate and reflects reasonable penetration to businesses of different sizes.

Borrower Distribution of Loans to Businesses in Combined AAs				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	76%	3%	21%	100%
% of Bank Loans in AA by #	80%	20%	0%	100%
% of Bank Loans in AA by \$	65%	35%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

## Home Purchase Loans

As shown in the following table, the distribution of loans to low-income borrowers is significantly lower than demographic data and reflects very poor penetration. The distribution of loans to moderate-income borrowers is somewhat lower than demographic data and reflects adequate penetration.

Demographic data reflects the combined AA, which includes Kerr County and Gillespie County, had a median housing value of \$156,766 at the 2010 Census. By January 2017, the median listing price for homes has risen to \$295,000 in Kerr County and \$463,000 in Gillespie County. Combined, the median listing price for homes in the combined counties is \$379,000 ([www.zillow.com](http://www.zillow.com)). This value, coupled with an adjusted median family income of \$52,400 for 2016, could make it difficult for borrowers, especially LMI borrowers, to afford a home or to even qualify for residential loans. As the community contacts mentioned, affordable housing is considered a need in both counties. Bank management noted that GNB does make a significant number of loans for mobile homes and trailers.

Borrower Distribution of Residential Real Estate Loans in Combined AAs								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	15%	0%	16%	10%	20%	30%	49%	60%

Source: Loan Sample, and census information

## Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout GNB's AA.



## Business Loans

The geographic distribution of loans to businesses reflects poor dispersion. As reflected in the following table, GNB did not originate any loans in the AA's one moderate-income CT. However, only 1% of businesses are located in this CT limiting the bank's lending opportunities.

Geographic Distribution of Loans to Businesses in Combined Assessment Areas								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Business Loans	0%	0%	1%	0%	60%	65%	39%	35%

Source: Loan Sample; D & B data.

## Home Purchase Loans

The geographic distribution of loans reflects excellent dispersion. As reflected in the following table, the percentage of loans in moderate-income CTs significantly exceeds the percentage of owner-occupied housing in the moderate-income CTs.

Geographic Distribution of Residential Real Estate Loans in Combined Assessment Areas								
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%	0%	2%	10%	56%	60%	42%	30%

Source: loan sample; U.S. Census data.

## Responses to Complaints

GNB did not receive any complaints related to its CRA performance during the evaluation period.

## FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Pursuant to 12 CFR 25.28(c), or 12 CFR 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 AA 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.