



# INTERMEDIATE SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## PUBLIC DISCLOSURE

April 12, 2010

### COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Moody National Bank  
Charter Number: 8899

2302 Post Office Street  
Galveston, TX 77550-1935

Office of the Comptroller of the Currency

HOUSTON Field Office  
1301 McKinney Street, Suite 1410  
Houston, TX. 77010-3031

**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.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Outstanding.**

The major factors supporting the institution's rating are:

- MNB officers have originated a significant number and dollar amount of community development loans exceeding the standards for satisfactory performance.
- MNB officers provide a significant level of community development services to the communities in the bank's assessment areas.
- Lending to borrowers of different incomes and to business of different sizes is reasonable. The geographic distribution of loans is excellent in the Galveston - Houston assessment area and reasonable in the Austin assessment area.
- The bank's quarterly loan to deposit ratio average is reasonable and has improved since the prior CRA examination.

## **Scope of Examination**

We reviewed the bank's CRA activities using a full-scope review. For the Lending Test, the time period covered included all loan originations in 2007, 2008, and 2009 for business loans and all originated 1-4 family residential owner-occupied loans for the same period. This was 1,311 business loans in number and \$194 million by dollar amount. For residential loans, this was 57 in number and \$6.5 million by dollar amount. We used reliable management collected data for both loan products. For the Community Development Test, our review included all community development loans, investments, and services since the date of the last CRA examination of May 29, 2007 through the date of this examination of April 12, 2010. Management provided reliable data for the Community Development Test, and we supplemented that information during the CRA examination.

Prior to the CRA examination, we completed a data integrity review in January of 2010. Management has elected to collect data regarding business loan originations although not required to do so as an Intermediate Small Bank. For 1-4 family residential loan originations, management is required to collect and submit data in accordance with the Home Mortgage Disclosure Act. We found during that examination that the error rate for business loan data was in excess of 5 percent. Since management is not required to collect data on business loans, we did not request that this data be corrected. However, management elected to correct this data prior to the CRA examination. For 1-4 family residential loans, we found errors in census tract data caused by software updates that did not automatically correct prior data. However, management promptly corrected all errors prior to the CRA examination and found to be reliable.

## Description of Institution

Moody National Bank (MNB) is owned by Moody Bancshares, Inc. MNB is a full-service intrastate bank headquartered in Galveston, Texas with full trust powers. MNB is one of the oldest banks in Texas. The bank was chartered on September 30, 1907. The main office is located at 2302 Postoffice Street in Galveston. The bank operates 21 branches in the Texas counties of Galveston, Brazoria, Harris, Fort Bend, and Travis. ATM services are available at all branches. In addition, there are four offsite ATMs in Galveston. The primary lending focus is lending to commercial businesses. Business loans are approximately 81 percent of the loan portfolio with commercial real estate and commercial loans comprising the majority of business loans at 66 percent. Construction and land development loans comprise the remainder of business lending. Residential real estate and multifamily lending is 15 percent, and all other loan categories including consumer lending is 4 percent of the loan portfolio. In an effort to increase loan growth, management opened five traditional branches and closed eight supermarket branches during the evaluation period. As of the last CRA examination through March 31, 2009, MNB opened five traditional branches in the communities of Angleton, West Pearland, Seabrook, Cinco Ranch - Katy, and Austin. In addition, management moved a traditional branch to a different location in Clear Lake. As of December 31, 2009, MNB had total assets of \$919 million and a tier one leverage capital ratio of 8.43 percent. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. The bank received a satisfactory rating at the prior CRA examination dated May 29, 2007.

*Please refer the MNB's CRA Public File for more information about this institution.*

## Description of Assessment Area(S)

The bank's two assessment areas (AA) are in Texas and meet the requirements of the regulation. The Galveston - Houston AA includes four contiguous counties in the Houston-Sugarland-Baytown Metropolitan Statistical Area (MSA). The Galveston - Houston AA includes 337 census tracts (CTs) in the four counties. It includes all 45 CTs of Brazoria County, 60 of 61 CTs of Galveston County, 201 CTs of 649 in southwest Harris County, and 31 of 58 CTs in northeast Fort Bend County. Approximately 34 percent or 113 CTs of the total are designated as low- or moderate-income. The Austin AA in Travis County includes all 181 CTs. Approximately 39 percent or 71 CTs of the total in Travis County are designated as low- or moderate-income. Of the total of 20 branches in the Galveston - Houston AA, Galveston County has nine branches, Brazoria County has five branches, and Harris County has five branches. Fort Bend County has one branch. The Austin AA has one branch that is relatively new having opened on October 27, 2008. The Housing and Urban Development updated MSA median family income for 2009 is \$63,800 for the Galveston - Houston AA. It is \$73,300 for the Austin AA.

## **GALVESTON COUNTY**

Galveston County is the home of MNB, and a majority of loans are originated in this county. It has five low-income (8%) CTs, 26 moderate-income (43%) CTs, 15 middle-income (26%) CTs, and 14 upper-income (23%) CTs. As of the 2000 U.S. Census, the county had a population of 250 thousand. The city of Galveston is the county seat, and it had approximately 59 thousand residents prior to Hurricane Ike. The next largest city is League City with a population of approximately 58 thousand residents. In addition, Galveston County includes the following communities: Bayou Vista, La Marque, Clear Lake Shores, Hitchcock, Dickinson, Jamaica Beach, Santa Fe, Friendswood, Kemah, Texas City, Bacliff, San Leon, Algoa, Bayview, Crystal Beach, Gilchrist, High Island, Port Bolivar, and the Village of Tiki Island. According the 2000 U.S. Census, Galveston County had approximately 13 percent of its residents living below the poverty level. The unemployment rate as of March 2010 was 8.9 percent according the U.S. Bureau of Labor Statistics (USBLS).

The economy of Galveston Island was severely affected by Hurricane Ike in September of 2008. The hurricane impacted all of the island businesses and most of the housing. Following Hurricane Ike, Galveston Island received Community Development Block Grants (CDBG) for housing, infrastructure, and economic development of \$267 million as well as various stimulus programs through city, state, and federal governments. In addition, the Galveston Economic Development Partnership facilitated the creation of the Hurricane Ike Recovery Loan program and the Galveston Business Recovery Fund. These two programs provided \$50 million in critical gap financing to Galveston businesses. MNB was a major participant in Hurricane Ike programs.

Galveston is a major tourist destination and is a port of entry for cruise ships. It is also a port of call for cargo ships. The largest employer is the University of Texas Medical Branch with more than 12 thousand employees. Other major employers with less than 2 thousand employees each include: American National Insurance Company, Galveston Independent School District, Landry's Seafood, Inc., Galveston County, Moody Gardens, City of Galveston, Fertitta Hospitality, Wal-Mart, and Texas A&M University at Galveston.

Local banking competition is intense and includes branches of large national banks, regional banks, small community banks, and non-bank financial institutions. MNB is first in deposit market share among financial institutions in the area. The bank's largest deposit competitors are: Guaranty Bank, Texas First Bank, Amegy Bank, N. A., Hometown Bank, N. A., and Bank of America, N. A. In addition, Amoco Federal Credit Union is a significant competitor.

## **BRAZORIA COUNTY**

Brazoria County has 45 CTs. The county does not have any low-income CTs. It has seven moderate-income (15%), 26 middle-income (58%), and 12 upper-income (27%) CTs. As of the 2000 U.S. Census, the county had a population of 242 thousand. The county seat is Angleton with 19 thousand residents. The largest city is Pearland with an estimated population of 79 thousand. According to the 2000 U.S. Census, Brazoria

County had approximately 10 percent of its residents living below the poverty level. The unemployment rate as of March 2010 was 8.9 percent according the USBLS. Pearland is the fastest growing city south of Houston, and it is adjacent to Houston, Texas. Significant retail, housing, and commercial growth is attributed to several master planned communities. There is a vast commercial development in Pearland including two outpatient and emergency care hospitals. The largest employers in Pearland include: Pearland Independent School District, Wal-Mart, City of Pearland, Kemlon, Weatherford, TurboCare, Super Target, Lowes, and Davis-Lynch.

The southern part of Brazoria County known as Brazosport is more similar in demographics to Galveston County than the northern part of the county that includes Pearland which is similar to Harris County. Brazosport has approximately 70 thousand residents and includes the cities of Lake Jackson, Clute, Freeport, Jones Creek, Oyster Creek, Quintana, Richwood, and Surfside Beach. Petrochemical industries are the mainstay of the Brazosport economy. The largest employer is Dow Chemical Company with more than 4 thousand employees. Other major employers include the Texas Department of Justice and the Infinity Group.

Banking competition in Brazoria County is intense. MNB is ranked 13th in deposit market share among financial institutions in the county. The largest competitors in deposit market share include: Dow Chemical Credit Union, Wells Fargo Bank, N.A., Guaranty Bank, Texas First Bank, Texas Gulf Bank, N.A, First National Bank of Lake Jackson, and Regions Bank.

## **HARRIS COUNTY**

Of the 201 CT in Harris County included in the AA, there are nine CTs (5%) that are low-income and 65 CTs (32%) that are moderate-income. Middle-income CTs in the AA total 67 (33%), and upper-income CTs total 56 (28%). Four tracts (2%) do not have an income designation. MNB's presence in Harris County is limited with only 4 of the total 20 branches in the Galveston Houston AA. However, Harris County has significant potential for originating loans after lending in Galveston County for Hurricane Ike slows.

Harris County is the most populous county in Texas and the third most populous in the nation. According to the U. S. Census Bureau as of 2003, the county had a population of 3.6 million with a growth rate during the last decade of 13.2 percent. The county seat is Houston which is the largest city in Texas and the 4th largest city in the nation. U. S. Census information reveals the population increased almost 20 percent from 1.6 million in 1990 to 2 million in 2000. Houston has the largest medical center in the world, the Texas Medical Center. The Center's economic impact exceeds \$10 billion annually, and it has approximately 61 thousand employees. Houston is known as the capital of the oil and gas industry with over 5 thousand firms doing business in the region. Texas has more Fortune 500 company headquarters than any other state in the nation, and many of those firms are headquartered in Houston. According to the 2000 U.S. Census, Harris County had approximately 10.37 percent of its residents living below the poverty level. The unemployment rate as of March 2010 was 8.8 percent according the USBLS.

Local banking competition is intense and includes branches of large national banks, regional banks, small community banks, and non-bank financial institutions. MNB is 66<sup>th</sup> in deposit market share among financial institutions in the area. The largest deposit competitors are: JP Morgan Chase Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A., Amegy Bank, N.A., and Compass Bank.

Given that Harris County has significant potential for loan growth, we reviewed a community contact completed by our Community Affairs Officer. A small business development center director contacted stated that Houston has not seen a major loss of businesses or industry closings. This director added that Hurricane Ike has had a significant effect on the area. In addition, the director felt that smaller banks were a little more aggressive in making small business loans. MNB had a significant role based on its size and resources in lending after Hurricane Ike. In addition, MNB's primary lending focus is to small businesses.

### **FORT BEND COUNTY**

Of the 31 CTs in Fort Bend County in the AA, there is one moderate-income (3%), 14 middle-income (45%), and 16 upper-income (52%). MNB's presence in Fort Bend County is limited with only one branch creating a reduced opportunity for originating loans. However, Fort Bend County has a high potential for loan growth. Fort Bend is one of the fastest growing counties in the United States. As of the 2000 census, the county had a population of 354 thousand and a growth rate of 57 percent in the decade between 1990 and 2000. In addition, a portion of the City of Houston is in Fort Bend County further contributing to potential loan growth. As of 2006, Fort Bend County was one of the wealthiest counties in Texas. Its county seat is Richmond, Texas in the Richmond - Rosenberg area which has experienced significant growth in recent years. Major employers include the Fort Bend Independent School District with more than 8 thousand employees and Fluor Corporation with approximately 3 thousand employees. In addition, Fort Bend County is home to a significant number of people working in Houston and has ample land available for future housing developments. Current estimates of those living below the poverty level in Fort Bend County are not available. The unemployment rate as of March 2010 was 8.3 percent according the USBLS.

Local banking competition is intense and includes branches of large national banks, regional banks, small community banks, and non-bank financial institutions. MNB is 34<sup>th</sup> in deposit market share among financial institutions in the area. The largest deposit competitors are: JP Morgan Chase Bank, N.A., Wells Fargo Bank, N.A., Prosperity Bank, Bank of America, N.A., and Amegy Bank, N.A.

### **TRAVIS COUNTY (AUSTIN AA)**

Travis County has 181 CTs. There are 20 low-income (11%), 51 moderate income (28%), 59 middle income (33%), and 49 upper-income (27%) CTs. Two CTs (1%) do not have an income designation. The state capital of Texas is located in the City of Austin, and Austin is also the county seat. MNB's presence in Austin is very limited with only one branch. As of the 2000 census, the county had an estimated population of

812 thousand. The Austin School District, the City of Austin, Dell Corporation, several federal government agencies, IBM Corp., Seton Healthcare Network, St. David's Healthcare Partnership, the State of Texas, and the University of Texas at Austin are the county's largest employers, employing over 6 thousand people each. Approximately 12.50 percent of the county population lives below the poverty line. The unemployment rate as of March 2010 was 6.8 percent according the USBLS.

Local banking competition is intense and includes branches of large national banks, regional banks, small community banks, and non-bank financial institutions. MNB is 48<sup>th</sup> in deposit market share among financial institutions in the area. The largest deposit competitors are: Bank of America, N.A., JP Morgan Chase Bank, N.A., Wells Fargo Bank, N.A., Frost National Bank, and Compass Bank.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

Overall, the bank's level of performance for the Lending Test is satisfactory. Based on the number of business loans being by far the primary loan product, we assigned the greatest weight for the lending test rating to business lending.

#### **Loan-to-Deposit Ratio**

MNB's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. The quarterly ratio average since the prior examination is 53.50 percent. We compared this ratio to a quarterly average of a peer group of 53 banks in the two AAs with less than \$1 billion in total assets. This peer group's ratio for the same period was 76.58 percent. The ratios of banks in this peer group ranged from a low of 12.53 percent to a high of 128.65 percent.

Although below the peer group average, the ratio is reasonable. Management has significantly improved the ratio since the prior examination's quarterly average of 33 percent. Also, the bank's ability to originate loans is impacted by a high level of public funds not available for lending. As the oldest bank in Galveston County, MNB has always had a significant level of public funds. For example, MNB had \$249 million in public funds on deposit as of April 12, 2010.

#### **Lending in Assessment Area**

A substantial number and dollar amount of loans were originated in the AA. The bank's level of lending in the AA exceeds the standards for satisfactory performance. The bank's performance is shown in the following table:

<b>Table 1 - Lending in Galveston - Houston AA and Austin AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	55	96.49	2	3.51	57	6,131	93.59	420	6.41	6,551
Business Loans	1,158	88.33	153	11.67	1,311	160,363	82.64	33,695	17.36	194,058
Totals	1,213	<b>88.67</b>	155	11.33	1,368	166,494	<b>82.99</b>	34,115	17.01	200,609

Source: Data reported under HMDA and loan data collected by bank.

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

Overall, the level of lending to borrowers of different incomes and to businesses of different sizes is reasonable and meets the standards for satisfactory performance.

For residential real estate lending, we only reviewed originations in the Galveston AA as none were originated in the Austin AA yet. We compared loan originations for home purchase, improvement, and refinance to the percentage of AA families based on 2000 U.S. Census information. Originations are less than the characteristics of the Galveston - Houston AA, but there is not an absence of lending to low- and moderate-income borrowers. Overall, we concluded that the level of lending was reasonable as shown in the following table:

<b>Table 2A - Borrower Distribution of Residential Real Estate Loans in Galveston - Houston AA</b>								
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
Res Real Estate	19.68	<b>10.91</b>	17.19	<b>12.73</b>	20.00	14.55	43.13	61.82

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

Lending to businesses of different sizes is reasonable. The percentage of loan originations to small businesses with revenues of \$1 million or less by number is less than the characteristics of the AA. However, many loans were originated during the evaluation period in Galveston County, especially after Hurricane Ike, to long time customers with revenues in excess of \$1 million and in larger dollar amounts. In addition, the bank was chartered in 1907 and has a significant number of mature business customers whose revenues have grown over the years to be in excess of \$1 million. Performance is shown in the following table:

<b>Table 2B - Borrower Distribution of Loans to Businesses in Galveston - Houston AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.78	3.59	19.63	100%
% of Bank Loans in AA by #	<b>47.35</b>	35.79	16.86	100%
% of Bank Loans in AA by \$	<b>35.51</b>	51.30	13.19	100%

Source: Loan data collected by bank; Dun and Bradstreet data.

Lending to businesses with less than \$1 million in revenues in the Austin AA is less than the characteristics of the AA. However, the level of lending is reasonable considering the relatively recent entry into this market. The bank’s performance is shown in the following table:

<b>Table 2C - Borrower Distribution of Loans to Businesses in Austin AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72.73	3.88	23.39	100%
% of Bank Loans in AA by #	<b>28.57</b>	57.14	14.29	100%
% of Bank Loans in AA by \$	<b>13.66</b>	84.61	1.73	100%

*Source: Loan data collected by bank; Dun and Bradstreet data.*

### Geographic Distribution of Loans

Overall, the geographic distribution of loans is excellent and exceeds the standards for satisfactory performance in the Galveston - Houston AA. In the Austin AA, the distribution is reasonable and meets the standards for satisfactory performance.

We compared the loan originations to the AA characteristics of owner-occupied residential real estate in the Galveston - Houston AA. The level of lending to low- and moderate-income borrowers significantly exceeds the characteristics of the AA. The bank’s performance is shown in the following table:

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Galveston - Houston AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans						
Res Real Estate	1.40	<b>7.27</b>	20.25	<b>34.55</b>	36.98	16.36	41.37	41.82

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

As with the borrower distribution of residential real estate lending in the Austin AA, we did not evaluate the geographic distribution of loans since none were originated.

The geographic distribution of loans significantly exceeds the characteristics of the AA for lending to businesses with any level of revenue and is excellent. The bank’s performance is shown in the following table:

Table 3A - Geographic Distribution of Loans to Businesses in Galveston - Houston AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	1.67	<b>5.82</b>	21.10	<b>33.80</b>	37.10	30.15	39.66	30.23

Source: Data collected by bank; U.S. Census data. 0.47% of businesses are in NA census tracts.

The geographic distribution of loans to businesses in the Austin AA is below the characteristics of the AA but considered reasonable. The bank has one branch in the Austin AA and has only recently entered this market. The bank’s performance is shown in the following table:

Table 3A - Geographic Distribution of Loans to Businesses in Austin AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	5.96	<b>0.00</b>	19.26	<b>14.28</b>	32.21	42.86	42.41	42.86

Source: Data collected by bank; U.S. Census data. 0.15% of businesses are in NA census tracts.

### Responses to Complaints

The bank did not receive any CRA related complaints during the evaluation period.

### COMMUNITY DEVELOPMENT TEST

Overall, the bank’s performance under the Community Development Test is outstanding and shows excellent responsiveness to the needs of its AA. Opportunities for lending and services were greater during this evaluation period, especially in Galveston County, after Hurricane Ike in September of 2008. Management responded well to those opportunities to meet the needs of its AA.

### Number and Amount of Community Development Loans

Qualifying community development loans are loans that meet the definition of community development, as defined in the CRA regulation. Officers originated a total of seven loans in the amount of \$23.7 million during the evaluation period. This level of lending shows excellent responsiveness to the needs of both of the bank’s AAs. In the Galveston AA, officers originated the following loans meeting the definition of community development:

- A loan to the Galveston Housing Authority for \$300 thousand. This is a

revolving working capital line of credit for an affordable housing apartment project. The completed project will have an income limitation to qualify for residency. Residency will be limited to individuals, households, or families having incomes that are 80 percent or less of the updated Houston-Sugar Land–Baytown MSA median family income. This income limitation will ensure all residents of the apartment are low- or moderate-income.

- A loan in the amount of \$3.7 million to rehabilitate student housing in a low-income census tract after Hurricane Ike. This loan revitalizes and stabilizes a low-income area and also provides housing for students of an entity having a significant economic impact on the area.
- An emergency line of credit to the City of Galveston in the amount of \$6.7 million for emergency conditions after Hurricane Ike.
- A loan in the amount of \$10.5 million for a local share of the funding for dredging and deepening of the Texas City Ship Channel. This project is part of the American Recovery and Reinvestment Act of 2009 and affects a significant number of local jobs estimated at approximately 15 thousand.
- A loan in the amount of \$500 thousand to finance a bond issued to Housing and Urban Development (HUD) for the construction of a senior living facility. This property is part of a national program that receives HUD subsidies and/or qualifies for low-income housing tax credits.
- A loan in the amount of \$293 thousand to purchase and renovate a ten unit apartment complex. The property is located in a moderate-income census tract and will provide affordable rental housing to local residents.

Although the bank does not yet have a significant presence in the Austin AA, officers were able to originate a \$1.8 million loan with additional funds to be committed for a mixed use housing development sponsored by the Guadalupe Neighborhood Development Corporation of the City of Austin. Sixteen units of a 38 lot subdivision are specifically targeted as affordable housing. Eight will be sold and eight will be rented by low- and moderate-income households.

### **Number and Amount of Qualified Investments**

Qualifying investments are investments, deposits, membership shares, or grants that have as their primary purpose community development as defined in the CRA regulation. The definition includes investments and contributions meeting the definition of community development. The level of community development investments is satisfactory. The bank had four prior period investments with remaining balances totaling \$1.6 million. In addition, MNB purchased an additional investment during this evaluation period of \$1.552 million.

The prior period investments are:

- One municipal revenue bond for the establishment of an open enrollment charter school in the Houston - Galveston AA originally totaling \$25 thousand with a balance as of this examination of \$15 thousand. The charter school is for an enrollment of 700 students and serves children pre-K through 8th grade. Approximately 51.4 percent of the students enrolled are economically disadvantaged.
- Two municipal revenue bonds originally totaling \$1 million with a balance as of this examination of \$791 thousand. The proceeds were to be used to provide community services targeted to affordable housing for low- and moderate-income residents of Galveston County, Texas. This bond was ultimately used to fund a nursing home and assisted living facility in the area.
- A mortgage backed security (MBS) through the Fannie Mae MBS program originally totaling \$1.2 million, with a balance as of this examination of \$669 thousand. This is a continuing CRA investment. Six of the 19 properties or 32 percent are in the bank's AA. The remaining properties are located in areas closely adjacent to the AA in Harris County, Texas.

MNB purchased a new investment during this evaluation of \$1.552 million. MNB purchased 1,552 shares of Series Q Preferred stock in Senior Housing Crime Prevention Foundation, Inc. (SHCPF). The SHCPF program is offered primarily to nursing homes with low- and moderate-income residents. It provides lock boxes to residents to enable them to store personal valuables; operates a 24-hour per day toll free telephone number to report crimes in the nursing home; offers and pays rewards for information that helps resolve crimes; and provides crime prevention counseling for residents and staff to help deter criminal activity against nursing home residents. During the evaluation period, SHCPF was actively involved in the resolution of stolen televisions from one of the nursing homes.

Management also originated 40 qualifying community development donations totaling \$118 thousand during the evaluation period. Of this total, \$61 thousand was given to the United Way of Galveston. The money donated was kept in the Galveston area to help with local programs that benefitted many low- and moderate- income individuals. Also, a portion of the donation assisted with the economic recovery of Galveston Island after Hurricane Ike.

### **Extent to Which the Bank Provides Community Development Services**

The bank's level of community development services shows excellent responsiveness to the needs of its AAs especially after Hurricane Ike. On September 13, 2008, Hurricane Ike crossed Galveston Island and the upper Texas Coast causing massive destruction. Virtually all of the property in the Galveston/Bolivar Peninsula coastal areas was affected by wind and flooding. Flooding caused by the storm surge varied from several inches to several feet. The counties in the bank's AA were in a declared disaster area.

Management implemented several programs to assist in rebuilding. These programs

were:

- Management implemented a payment deferral plan allowing those affected by the storm to delay payments. This was for 241 loans with a total principal balance of \$40.8 million. The payment deferral options were up to 90 days.
- Management originated 90 to 180 day loans at 5 percent to facilitate reconstruction of damaged properties in partnership with other Galveston banks. As of May 15, 2010, management had originated 52 loans totaling \$3.2 million. The amounts of these loans ranged from a small loan of \$3 thousand to the largest loan of \$650 thousand.
- Management participated in the Housing Disaster Relief Grant Program with the Federal Home Loan Bank of Dallas. Management was able to aid three customers obtaining grant amounts of \$10 thousand, \$10 thousand, and \$7 thousand for a total of \$27 thousand. Management also helped four other customers in the process, but the funds were depleted before they could be approved for a grant.
- Management participated in the Economic Development Disaster Relief Grant Program with the Federal Home Loan Bank of Dallas. Member institutions could apply for grants of \$100 thousand for Hurricane Gustav and \$100 thousand for Hurricane Ike. The grants were to small businesses that demonstrated the promotion of economic development in affected areas through the creation or retention of jobs. Management was able to assist 11 customers in obtaining grants that totaled \$200 thousand ranging in amounts from \$8.6 thousand to \$20 thousand. All were small businesses in the Galveston area.

In addition to community development services related to Hurricane Ike, management is significantly involved in the community. In particular, President Pierson is involved in a number of community development services. The more significant for CRA purposes include:

- Serving in a significant fund raising role for the Galveston Salvation Army. He is an Advisory Board Vice Chair and Co-Chair of the Campaign Steering Committee for the new Center of Hope. Most recently, President Pierson participated in raising \$38.5 thousand directly from the bank and a total of \$5 million from the community.
- Serving on the Board of Directors of the Bay Area Houston Economic Partnership.
- Serving as a Director and President of the Galveston County Economic Alliance Foundation whose primary mission is the funding of the local Small Business Development Center (SBDC).

- Serving as a Director, President, and Campaign Chairman for the United Way of Galveston.

In addition to President Pierson, other bank officers are actively involved in several organizations that meet the definition of community development services. Some of the more significant are:

- Serving as Treasurer of the Galveston County Economic Alliance whose sole purpose is funding for the Small Business Development Center.
- Involvement with the Southeast Texas Housing Finance Corporation. This organization assists low- and moderate-income first time home buyers with incomes of less than 80 percent of the median to purchase homes.
- Participation in *Teach the Children to Save*, a financial literacy program sponsored by the American Bankers Association.
- Involvement with the Salvation Army supporting fund raising.
- Participation in the St. Vincent De Paul Society program that provides shelter, food, and necessary items for the homeless.
- Serving at the Resource & Crises Center for Galveston County that focuses on the prevention of family violence and sexual assault.
- Serving at the Gleanings from the Harvest/Meals on Wheels, organizations that feed the hungry in Galveston County.
- Participation at the Advocacy Center for Children that provides services for children who have no other resources.

Many bank officers participate in civic organizations such as local Rotary, Kiwanis and Lions clubs. Also, officers are actively involved in local Chambers of Commerce. Although the primary mission of these organizations is to promote civic involvement and provide networking opportunities, these organizations have numerous projects that benefit low- and moderate-income persons.

MNB offers a standard array of loan and deposit products. The bank's branch distribution is satisfactory. Although the bank does not have any branches in low-income CTs, it has four of 21 branches (19%) in moderate-income CTs. Six are located in middle-income CTs, and 11 are in upper-income CTs. Of the four offsite ATMs, one is in a low-income CT, and two are in moderate-income CTs. The fourth ATM is in an upper-income CT.

### **Responsiveness to Community Development Needs**

Overall, management's response to community development needs, especially after Hurricane Ike, is outstanding. Management acted quickly to ensure funds were available to the city and county and also to area businesses and residents. Also, management continues to be actively involved in the provision of financial services.

### **Fair Lending or Other Illegal Credit Practices Review**

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