



PUBLIC DISCLOSURE

January 11, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texas National Bank
Charter Number 11879

201 S. Texas Ave
Mercedes, TX 78570

Office of the Comptroller of the Currency
San Antonio Field Office
10001 Reunion Pl., 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, and should not 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.

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Overall CRA Rating

Institution's CRA Rating: This institution is rated **Outstanding**.

The Lending Test is rated: Satisfactory.

The major factors that support this rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable.
- A substantial majority of the bank's loans are inside its assessment area (AA).
- The bank exhibits a reasonable geographic distribution of loans in its AA.
- The bank exhibits an excellent distribution of loans to individuals of different income levels and businesses of different sizes, given the product lines offered by the bank.
- The bank exhibits excellent responsiveness to community development needs in the state through community development loans.
- The bank exhibits excellent responsiveness to community development needs in the state through qualified investments and community development services. These community development activities had a positive effect on the bank's overall CRA rating and increased its satisfactory performance to outstanding.

Loan-to-Deposit Ratio

Considering the bank's size, financial condition, and credit needs of the AA, the bank's loan-to-deposit ratio is reasonable.

The bank's quarterly average LTD ratio was 77 percent and ranged from a low of 67 percent to a high of 82 percent during the evaluation period.

To assess Texas National Bank's (TNBs) performance, we compared the banks average quarterly LTD ratio to three similarly situated community banks with total assets ranging from \$145 million to \$653 million. The quarterly average loan to deposit ratio for similarly situated institutions was 76 percent with an average low of 70 percent and average high of 84 percent. TNB's quarterly average LTD ratio exceeded the peer groups for the evaluation period.

| Institution | Total Assets (\$000s) As of 6/30/2020 | Average Quarterly LTD Ratio As of 12/31/2019 |
|--|--|---|
| Texas National Bank, Mercedes, TX | \$420,551 | 76.63 |
| First Community Bank, San Benito, TX | \$570,055 | 71.79 |
| Rio Bank, McAllen, TX | \$653,249 | 70.54 |
| Bank of South Texas, McAllen, TX | \$145,171 | 85.32 |

Lending in Assessment Area

A substantial majority of the bank's loans are inside its AA.

The bank originated and purchased 92 percent, by number, and 97 percent, by dollar volume, of its total loans inside the bank's AA during the evaluation period. This analysis is performed at the bank, rather than the AA, level. This percentage does not include extensions of credit by affiliates that may be considered under the other performance criteria.

| Lending Inside and Outside of the Assessment Area | | | | | | | | | | |
|--|-----------------|-------|---------|------|------------|---------------------------------|------|---------|------|-------------------|
| Loan Category | Number of Loans | | | | Total # | Dollar Amount of Loans \$(000s) | | | | Total \$(000s) |
| | Inside | | Outside | | | Inside | | Outside | | |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Mortgage | 20 | 100.0 | 0 | 0 | 20 | 1,588 | 100 | 0 | 0.0 | 1,588 |
| Small Business | 18 | 90.0 | 2 | 10 | 20 | 875 | 92.0 | 76 | 8.0 | 951 |
| Consumer | 17 | 85.0 | 3 | 15.0 | 20 | 89 | 89.9 | 10 | 10.1 | 99 |
| Total | 55 | 91.7 | 5 | 8.3 | 60 | 2,552 | 96.7 | 86 | 3.3 | 2,638 |

Description of Institution

Texas National Bank (TNB) is an intrastate bank established in 1920 and headquartered and chartered in Mercedes, Texas. The corporate office is located in Edinburg, Texas. TNB is wholly owned by MNB Ventures, Inc., a single bank holding company. The bank was established to provide the local residents with comprehensive financial products and services tailored to support community and economic development in the region. The bank's products and services include small business, commercial real estate, consumer, and mortgage loans; as well as depository accounts and development services designed for un- or underbanked community members.

TNB designated all of Hidalgo County, Texas as its only AA. In addition to the headquarters, the bank has six other full-service branches all located within Hidalgo County. All locations have a walk-in teller lobby, drive up motor bank, and automated teller machine (ATM). The bank has nine additional deposit-taking ATMs located throughout its AA, four at EZ Clean Car Washes in Weslaco, Donna, and San Benito, Texas, and one at each of the following; the bank's corporate office, the Mission Event Center, the Edinburg Municipal Court, and the Edinburg City Hall. Operational changes since the prior CRA

examination include the opening of three additional branches, all within its current AA. These branch openings include one in Mission in 2017, one in Elsa in 2018, and one in San Juan in 2020. There have not been any branch closures since the prior examination.

In 2017, TNB received the Community Development Financial Institution (CDFI) designation from the Treasury Department. The CDFI designation recognizes TNB's commitment to provide products and services to communities in need which includes affordable housing and small business lending. The program allows TNB to obtain grants and establish partnerships and deposit relationships with other industry organizations and CDFI's to address the needs of the community. For the bank to qualify for CDFI awards and grants they are required to meet lending benchmarks within 3 years of the awards' issuance. The loans must be in the bank's trade market and in designated CDFI Investment Areas, or to CDFI target populations (i.e. LMI families and minorities). The bank met each of its benchmark requirements for 2017 and 2018 and is on track to meet its 2019 requirements by 2021. In 2018, as part of the CDFI Financial Assistance program, TNB established the "Mi Prestamo Mi Banco" product to provide additional help to low- and moderate-income borrowers to assist them in purchasing their home. The program has less stringent underwriting requirements and lower closing costs.

As of December 31, 2019, TNB reported assets totaling \$330 million, tier 1 capital of \$29 million, and a loan portfolio totaling \$208 million. By dollar volume, the composition of the loan portfolio consisted of 60 percent commercial loans, 34 percent residential real estate loans, 4 percent agricultural loans, and 2 percent consumer installment loans.

The previous CRA Performance Evaluation, dated February 13, 2017, reflected a satisfactory rating. There are no legal or other impediments that limit the bank's ability to meet the community's credit needs.

Scope of the Evaluation

Evaluation Period/Products Evaluated

We performed a small bank CRA examination of TNB using financial data as of December 31, 2019. The evaluation period was from February 13, 2017, the date of the prior CRA examination, to December 31, 2019. We reviewed the quarterly average LTD ratio for the 12 quarters in the evaluation period and analyzed lending performance for loans originated or purchased within this time frame. At the bank's request, community development (CD) lending and investment activities were also reviewed.

We utilized bank internal reports to identify the type, number, and dollar volume of loans which were originated, renewed, or purchased during the evaluation period. Based on our analysis, residential real estate, commercial lending, and consumer installment lending were the primary loan products. As a percentage of the dollar volume of loans originated in the evaluation period, commercial loans totaled 60 percent and residential real estate loans totaled 33 percent. As a percentage of number of loans originated in the evaluation period, commercial and consumer installment loans totaled 36 percent, each. Agricultural loans were not selected as a primary product as they represented only 2 percent of originations based on dollar volume and 3 percent based on number of loans.

Our analysis of lending performance inside the identified AA, borrower income distribution, and geographical distribution was based on randomly selected samples of 20 residential real estate loans, 20 commercial loans, and 20 consumer loans. We analyzed this information and compared it to demographic

statistical data reported in the 2011-2015 American Community Survey (ACS) and 2017-2019 Dunn & Bradstreet information, in order to draw conclusions on lending performance. For CRA purposes, the ACS replaces the decennial census. CD lending and investment activities were based on bank internal reports and verifiable supporting documentation.

With an evaluation period end date of December 31, 2019, qualifying activities performed in response to the significant impact of the corona virus pandemic across the United States are not addressed in this evaluation. Bank qualifying activities will be considered in the subsequent evaluation.

Selection of Areas for Full-Scope Review

For purposes of this evaluation, we performed a full-scope review of TNB's only AA, Hidalgo County which encompasses the entirety of the McAllen-Edinburg-Mission, TX MSA. Refer to appendix A, Scope of Examination, for a list of full- and limited-scope AAs.

Ratings

The bank's overall rating is a blend of the state ratings, and where applicable, multistate ratings. The MMSA rating and state ratings are based on performance in all bank AAs. TNB has only one AA rating and operates only in the state of Texas. In arriving at our conclusion, we placed higher weight on commercial and consumer loans. Commercial loans represented the largest portion of originations by dollar volume. Commercial and consumer loans had similar origination levels by number of loans originated.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

State Rating

State of Texas

CRA rating for the State of Texas¹: Outstanding.

The Lending Test is rated: Satisfactory.

The major factors that support this rating include:

- A substantial majority of the bank's loans are inside its AA.
- The bank's LTD ratio in the state is reasonable.
- The bank exhibits a reasonable geographic distribution of loans in the state.
- The bank exhibits an excellent distribution of loans to individuals of different income levels and businesses of different sizes, given the product lines offered by the bank
- The bank exhibits excellent responsiveness to community development needs in the state through community development loans.
- The bank exhibits excellent responsiveness to community development needs in the state through qualified investments and community development services. These community development activities had a positive effect on the bank's overall CRA rating and increased its satisfactory performance to outstanding.

¹ This rating reflects performance within the state. The statewide evaluations do not reflect performance in the parts of those states contained within a MMSA.

Description of Institution's Operations in Texas

Hidalgo County

| Table A – Demographic Information of the Assessment Area | | | | | | |
|--|---------|---------------|------------------------------|------------------|-----------------|---------------|
| Assessment Area: Hidalgo County 2017 - 2019 | | | | | | |
| Demographic Characteristics | # | Low % of # | Moderate % of # | Middle % of # | Upper % of # | NA* % of # |
| Geographies (Census Tracts) | 113 | 0.9 | 28.3 | 40.7 | 27.4 | 2.7 |
| Population by Geography | 819,217 | 1.7 | 27.6 | 41.2 | 28.8 | 0.7 |
| Housing Units by Geography | 258,126 | 1.2 | 25.5 | 41.8 | 31.2 | 0.2 |
| Owner-Occupied Units by Geography | 152,552 | 1.4 | 24.6 | 42.3 | 31.5 | 0.2 |
| Occupied Rental Units by Geography | 71,469 | 1.2 | 28.1 | 39.3 | 31.3 | 0.1 |
| Vacant Units by Geography | 34,105 | 0.7 | 24.3 | 45.2 | 29.3 | 0.4 |
| Businesses by Geography | 43,526 | 0.5 | 19.0 | 34.4 | 46.0 | 0.2 |
| Farms by Geography | 743 | 0.9 | 19.5 | 37.8 | 40.6 | 1.1 |
| Family Distribution by Income Level | 183,335 | 25.1 | 16.3 | 15.4 | 43.2 | 0.0 |
| Household Distribution by Income Level | 224,021 | 26.6 | 15.2 | 14.9 | 43.4 | 0.0 |
| Median Family Income MSA – McAllen-Edinburg-Mission, TX MSA | | \$37,529 | Median Housing Value | | | \$84,918 |
| | | | Median Gross Rent | | | \$662 |
| | | | Families Below Poverty Level | | | 29.9% |
| <i>Source: 2015 ACS and 2019 D&B Data</i> <i>Due to rounding, totals may not equal 100.0%</i> <i>(*) The NA category consists of geographies that have not been assigned an income classification.</i> | | | | | | |

TNB's AA includes all of Hidalgo County and does not arbitrarily exclude any LMI geographies. Hidalgo County is located in the Rio Grande Valley in South Texas and has been designated as the McAllen-Edinburg-Mission Metropolitan Statistical Area (MSA) by the US Census Bureau. Hidalgo County includes the cities of Donna, Edinburg, McAllen, Mercedes, Mission, Pharr, San Juan, and Weslaco, as well as several other small cities. TNB has branches located in Edinburg, Elsa, McAllen, Mercedes, Mission, San Juan, and Weslaco. Four of the bank's branches are located in or adjacent to moderate-income census tracts. The 2019 FFIEC Census reports show there are a total of 113 census tracts (CTs), of which 1 is low-income, 32 are moderate-income, 46 are middle-income, 31 are upper-income, and 3 have no income designation. The June 30, 2019 FDIC deposit market share report shows that TNB has a 2.6 percent deposit market share in the AA. The top five deposit market leaders are Lone Star National Bank with 15.4 percent, BBVA USA with 14.7 percent, International Bank of Commerce with 14.4 percent, Vantage Bank of Texas with 10.7 percent, and JPMorgan Chase Bank with 8.5 percent. Combined these institutions account for 64 percent of all deposits in the AA.

Community Contacts

In order to better understand the market, demographics, and lending opportunities of TNBs AA, we interviewed two local community contacts who deal with housing or economic factors in the area. The first contact represented a housing organization whose mission is to provide affordable housing to low-

income families and the elderly. The contact indicated that most of the county would be considered low-income, and housing prices in the market make it challenging to meet the housing needs. The demographic of the community is primarily comprised of Hispanic individuals whose primary language may not be English. The contact indicated that, due to the demographic, a significant need of the community is financial literacy education available in both Spanish and English. Finally, the contact indicated that community perception on local banks, especially community banks, is very good with community banks playing an active role in community events, fundraisers, and finance related workshops.

The second community contact represented a non-profit organization whose mission is to create jobs and encourage economic development of the community. The contact stated that median household income is considered low, and the area can be described as economically challenged. The contacted indicated there are commercial and residential projects that local financial institutions can participate in. The contact stated that the perception of local banks is very positive, and these institutions are considered partners in the community. Though the community may be financially challenged, community banks have kept up with demand and have found ways to meet banking needs through special products and services.

Employment and Economic Factors

US Bureau of Labor Statistics data shows that, during the evaluation period, unemployment in Hidalgo County ranged from a high of 8.4 percent in February 2017 to a low of 5 percent in April 2019. Additionally, during the assessment period, 29.9 percent of households were below the poverty level. There is no single industry or major employer driving the local economy. The work force is largely in the private sector, in the service and retail industries, employing 72 percent of workers, while government workers account for just over 17 percent.

Housing Factors

Housing pricing remains affordable with a median average of \$84.9 thousand. To evaluate affordability, we compared a 5 percent interest mortgage of \$85,000 to the FFEIC's updated MFI for LMI individuals. Based on the 2019 weighted average FFIEC updated MFI of \$41,900 for Hidalgo County, annual income for low- and moderate-income individuals would fall between \$22,522 and \$33,520, respectively. For moderate-income borrowers, the annual mortgage payments of \$5,476 would account for at least 16 percent of their annual income. For low-income borrowers, the annual payment would account for at least 24 percent of income. While housing prices remain relatively affordable, availability of housing is low. Based on 2015 US Census data, only 13 percent of all available housing units are vacant; furthermore, only 0.7 percent of these vacant units are in low-income CTs. Additionally, the AA's single low-income CT is located in a rural area of the county. The area has limited access to drainage and presents a significant challenge for residential development. The low number of vacant units located in the low-income census tract, coupled with the challenges of residential development in the tract, presents a significant challenge to financial institutions to originate residential mortgages in this area.

Scope of Evaluation in Texas

We selected the bank's only AA for a full-scope review. The AA includes the entirety of Hidalgo County, which is designated as the McAllen-Edinburg-Mission, TX MSA. We evaluated TNB lending activities using Small Bank Community Reinvestment Act (CRA) examination procedures. We selected a random sample of 20 residential real estate, 20 commercial, and 20 consumer loans originated, purchased, or renewed over the evaluation period. We used these 60 loans to calculate the percentage of loans originated

inside the AA. We analyzed the sampled loans based on the 2011-2015 American Community Survey (ACS) data and 2017-2019 Dunn & Bradstreet information. For CRA purposes, the ACS replaces the decennial census.

LENDING TEST

The bank's performance under the Lending Test in Texas is rated Satisfactory.

Our full-scope review placed additional emphasis on commercial and consumer loans as these loans made up the majority of lending activity during the evaluation period, by number originated and dollar volume originated. Community development loans were also assessed and factored into the Lending Test rating.

Conclusions for Area Receiving a Full-Scope Review

Based on a full-scope review, the bank's performance in the Hidalgo County AA is excellent.

Distribution of Loans by Income Level of the Geography

The bank exhibits reasonable geographic distribution of loans in the State.

Home Mortgage Loans

Refer to Table O in the state of Texas section of appendix D for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

The distribution of home mortgage loans in geographies of different income levels is excellent. The bank did not have any loans in low-income geographies; however, opportunities to originate home mortgages in low-income geographies are scarce. The proportion of loans originated in moderate-income geographies significantly exceeds the distribution of owner-occupied housing units in moderate-income areas of this AA. The bank's percentage of loans significantly exceeds the aggregate distribution of home mortgage loans in moderate-income geographies.

Small Loans to Businesses

Refer to Table Q in the state of Texas section of appendix D for the facts and data used to evaluate the geographic distribution of the bank's originations and purchases of small loans to businesses.

The distribution of small loans to businesses in geographies of different income levels is reasonable. The proportion of loans in low-income geographies significantly exceeds the percentage of businesses in those geographies. The bank's percentage of loans also significantly exceeds the aggregate distribution of small business loans in low-income geographies. The proportion of loans in moderate-income geographies is near-to the percentage of businesses in those geographies. The bank's percentage of loans is also near-to the aggregate distribution of small business loans in moderate-income geographies.

Consumer Loans

Refer to Table U in the state of Texas section of appendix D for the facts and data used to evaluate the geographic distribution of the bank's consumer loan originations and purchases.

The geographic distribution of consumer loans in geographies of different income levels is reasonable. The bank did not have any loans in low-income geographies; however, demographic data for the area show that only 1.3 percent of households are located in low-income geographies and opportunities to lend in these areas are minimal. The percentage of loans in moderate-income geographies is near-to the percentage of households in those areas.

We reviewed geographic distribution reports for home mortgage loans in the full-scope AA and did not identify any unexplained conspicuous gaps. We reviewed small business and consumers loans selected for sample to identify any gaps in the geographic distribution of loans. No unexplained, conspicuous gaps were identified.

Lending Gap Analysis

We reviewed geographic distribution reports for home mortgage loans in the full-scope AA and did not identify any unexplained conspicuous gaps. We reviewed small business and consumers loans selected for sample to identify any gaps in the geographic distribution of loans. No unexplained, conspicuous gaps were identified.

Distribution of Loans by Income Level of the Borrower

The bank exhibits an excellent distribution of loans to individuals of different income levels and businesses of different sizes, given the product lines offered by the bank.

Home Mortgage Loans

Refer to Table P in the state of Texas section of appendix D for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

The distribution of home mortgage loans to borrowers of different income levels is excellent. The percentage of loans to low-income borrowers is near-to the percentage of low-income families in the AA and significantly exceeds the aggregate distributions of home mortgage loans to low-income families. The percentage of bank loans to moderate-income borrowers significantly exceeds the percentage of moderate-income families and significantly exceeds the aggregate distribution of home mortgage loans to moderate-income families.

Small Loans to Businesses

Refer to Table R in the state of Texas section of appendix D for the facts and data used to evaluate the borrower distribution of the bank's originations and purchases of small loans to businesses.

The distribution of small loans to businesses with annual revenues of \$1 million or less is excellent. The percentage of small loans to businesses exceeds the percentage of businesses with annual revenues of \$1

million or less in the AA. The bank's percentage significantly exceeds aggregate data from other area small business lenders.

Consumer Loans

Refer to Table V in the state of Texas section of appendix D for the facts and data used to evaluate the borrower distribution of the bank's consumer loan originations and purchases.

The distribution of consumer loans to borrowers of different income levels is reasonable. The bank's percentage of loans to low-income borrowers is below the percentage of low-income households. The bank's percentage of loans to moderate-income borrowers significantly exceeds the percentage of moderate-income households.

Responses to Complaints

TNB did not receive any complaints related to its CRA performance between February 13, 2017 (date of the previous CRA examination) and January 11, 2021 (date of the current examination). This has a neutral impact on its overall rating.

COMMUNITY DEVELOPMENT

Based on a full-scope review, the bank exhibits excellent responsiveness to community development needs in the state through community development loans qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's AA. Performance related to community development activities had a positive effect on the bank's rating in the state.

Number and Amount of Community Development Loans

Refer to the Community Development Loans table below for the facts and data used to evaluate the bank's level of CD lending. The table includes all CD loans, including multifamily loans that also qualify as CD loans.

Over the evaluation period, TNB made two qualified community development loans totaling \$505 thousand which financed the construction of multi-family housing located in moderate-income CTs. Total qualified community development loans represent 1.8 percent of tier 1 capital.

| <i>Community Development Loans</i> | | | | |
|------------------------------------|---|--------------|-----------|---------------|
| Assessment Area | # | % of Total # | \$(000's) | % of Total \$ |
| Hidalgo County | 2 | 100.0 | \$505 | 100.0 |

Number and Amount of Qualified Investments

Refer to the Qualified Investments table below for the facts and data used to evaluate the bank's level of CD investing. The table includes all CD investments and donations, including qualified investments in

areas outside of the bank's established AA, but which were made to entities that service the greater state-wide area of Texas.

Over the evaluation period, TNB made 14 qualified investments within its AA which totaled \$71 thousand. Noteworthy amounts and organizations included \$5 thousand to the Salvation Army to help with Hurricane Harvey relief efforts, \$5 thousand to the Affordable Homes of South Texas, Inc., and \$47 thousand to the Disaster Rebuilding Assistance Program through the Federal Home Loan Bank Dallas to provide funds for the repair and rehabilitation of LMI owner occupied housing affected by flooding in June 2018. TNB also made \$250 thousand in qualified investments in other CDFIs which operate in the greater Texas area. Total qualified investments represent 1.1 percent of tier 1 capital.

| <i>Qualified Investments</i> | | | | | | | | | | |
|-----------------------------------|---------------|-----------|----------------|--------------|-----------|--------------|--------------|---------------|------------------------|-----------|
| Assessment Area | Prior Period* | | Current Period | | Total | | | | Unfunded Commitments** | |
| | # | \$(000's) | # | \$(000's) | # | % of Total # | \$(000's) | % of Total \$ | # | \$(000's) |
| Hidalgo County AA | 0 | 0 | 14 | \$71 | 14 | 93.3 | \$71 | 22.1 | 0 | 0 |
| Greater State-Wide Operating Area | 0 | 0 | 1 | \$250 | 1 | 6.7 | \$250 | 77.9 | 0 | 0 |
| Total | 0 | 0 | 15 | \$321 | 15 | 100.0 | \$321 | 100.0 | 0 | 0 |

* Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

** Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

Extent to Which the Bank Provides Community Development Services

The institution and its employees demonstrate significant community involvement and provide services to promote financial literacy and assistance to the community. Notable financial literacy initiatives are programs aimed at building important money management skills at a young age through Rico's Savings Club, and Rico's Roundup. As indicated by the community contact interviewed, financial literacy programs are a large need of the community. TNB helped to meet this need by participating in eight different financial literacy trainings and workshops which were offered at local career fairs, colleges, and universities.

Several officers of the bank, including the President, commercial and mortgage lending vice presidents, and branch managers, play active roles in the community and hold board seats and management positions in various community groups which are aimed at supporting LMI individuals or generating economic development. Examples of these groups include the Texas State Affordable Housing Corporation, the City of San Juan Planning and Zoning Commission, the Mercedes, Edinburg, and Weslaco Chambers of Commerce, and the Economic Development Corporations of Mercedes and Weslaco.

* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the MSAs and non-MSAs that received comprehensive examination review, designated by the term “full-scope,” and those that received a less comprehensive review, designated by the term “limited-scope”.

| | | |
|---|---|--|
| Time Period Reviewed: | 02/14/2017 to 12/31/2019 | |
| Bank Products Reviewed: | Home mortgage, small business, and consumer loans Community development loans, qualified investments, community development services | |
| Affiliate(s) | Affiliate Relationship | Products Reviewed |
| Not applicable | Not applicable | Not applicable |
| List of Assessment Areas and Type of Examination | | |
| Rating and Assessment Areas | Type of Exam | Other Information |
| Texas | | |
| Hidalgo County AA | Full-Scope | Includes full county of Hidalgo; also designated as the McAllen-Edinburg-Mission MSA |

Appendix B: Summary of MMSA and State Ratings

| RATINGS | Texas National Bank |
|---------------------|---------------------|
| Overall Bank: | Lending Test Rating |
| Texas National Bank | Satisfactory |
| MMSA or State: | |
| Texas | Satisfactory |

Appendix C: Definitions and Common Abbreviations

The following terms and abbreviations are used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending (Aggt.): The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Census Tract (CT): A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

Combined Statistical Area (CSA): A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

Community Development (CD): Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: A closed-end mortgage loan or an open-end line of credit as these terms are defined under 12 CFR 1003.2, and that is not an excluded transaction under 12 CFR 1003.3(c)(1) through (c)(10) and (c)(13).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-Scope Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income Individual: Individual income that is less than 50 percent of the area median income.

Low Income Geography: A census tract with a median family income that is less than 50 percent.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the state/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rating Area: A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Appendix D: Tables of Performance Data

Content of Standardized Tables

A separate set of tables is provided for each state. All multistate metropolitan statistical areas, if applicable, are presented in one set of tables. References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the Lending Test tables, the following are applicable: (1) purchased are treated as originations; and (2) “aggregate” is the percentage of the aggregate number of reportable loans originated and purchased by all HMDA or CRA-reporting lenders in the MMSA/assessment area. Deposit data are compiled by the FDIC and are available as of June 30th of each year. Tables without data are not included in this PE.

The following is a listing and brief description of the tables included in each set:

Table O. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents aggregate peer data for the years the data is available.

Table P. Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MMSA/assessment area. The table also presents aggregate peer data for the years the data is available.

Table Q. Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses that were originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) in those geographies. Because aggregate small business data are not available for geographic areas smaller than counties, it may be necessary to compare bank loan data to aggregate data from geographic areas larger than the bank’s assessment area.

Table R. Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenue - Compares the percentage distribution of the number of small loans (loans less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to: 1) the percentage distribution of businesses with revenues of greater than \$1 million; and, 2) the percentage distribution of businesses for which revenues are not available. The table also presents aggregate peer small business data for the years the data is available.

Table S. Assessment Area Distribution of Loans to Farms by Income Category of the Geography - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size)

throughout those geographies. The table also presents aggregate peer data for the years the data is available. Because aggregate small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.

- Table T. Assessment Area Distribution of Loans to Farms by Gross Annual Revenues** - Compares the percentage distribution of the number of small loans (loans less than or equal to \$500 thousand) originated and purchased by the bank to farms with revenues of \$1 million or less to: 1) the percentage distribution of farms with revenues of greater than \$1 million; and, 2) the percentage distribution of farms for which revenues are not available. The table also presents aggregate peer small farm data for the years the data is available.
- Table U. Assessment Area Distribution of Consumer Loans by Income Category of the Geography** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households in those geographies.
- Table V. Assessment Area Distribution of Consumer Loans by Income Category of the Borrower** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of households by income level in each MMSA/assessment area.

| Table O: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Geography | | | | | | | | | | | | | | | | | | | | 2017-19 | |
|---|---------------------------|--------------|------------|----------------|-----------------------------------|--------------|------------|-----------------------------------|--------------|-------------|-----------------------------------|--------------|-------------|-----------------------------------|--------------|-------------|-----------------------------------|--------------|------------|----------------|--|
| Assessment Area: | Total Home Mortgage Loans | | | | Low-Income Tracts | | | Moderate-Income Tracts | | | Middle-Income Tracts | | | Upper-Income Tracts | | | Not Available-Income Tracts | | | | |
| | # | \$ | % of Total | Overall Market | % of Owner-Occupied Housing Units | % Bank Loans | Aggregate | % of Owner-Occupied Housing Units | % Bank Loans | Aggregate | % of Owner-Occupied Housing Units | % Bank Loans | Aggregate | % of Owner-Occupied Housing Units | % Bank Loans | Aggregate | % of Owner-Occupied Housing Units | % Bank Loans | Aggregate | | |
| Hidalgo County 2017-2019 | 20 | 1,588 | 100 | 10,241 | 1.4 | 0.0 | 0.4 | 24.6 | 30.0 | 13.6 | 42.3 | 35.0 | 36.6 | 31.5 | 35.0 | 49.2 | 0.2 | 0.0 | 0.2 | | |
| Total | 20 | 1,588 | 100 | 10,241 | 1.4 | 0.0 | 0.4 | 24.6 | 30.0 | 13.6 | 42.3 | 35.0 | 36.6 | 31.5 | 35.0 | 49.2 | 0.2 | 0.0 | 0.2 | | |

*Source: 2015 ACS Census; 01/01/2017 - 12/31/2019 Bank Data, 2019 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

| Table P: Assessment Area Distribution of Home Mortgage Loans by Income Category of the Borrower | | | | | | | | | | | | | | | | | | | | 2017-19 | |
|--|---------------------------|--------------|------------|----------------|----------------------|--------------|------------|---------------------------|--------------|------------|-------------------------|--------------|-------------|------------------------|--------------|-------------|--------------------------------|--------------|-------------|----------------|--|
| Assessment Area: | Total Home Mortgage Loans | | | | Low-Income Borrowers | | | Moderate-Income Borrowers | | | Middle-Income Borrowers | | | Upper-Income Borrowers | | | Not Available-Income Borrowers | | | | |
| | # | \$ | % of Total | Overall Market | % Families | % Bank Loans | Aggregate | % Families | % Bank Loans | Aggregate | % Families | % Bank Loans | Aggregate | % Families | % Bank Loans | Aggregate | % Families | % Bank Loans | Aggregate | | |
| Hidalgo County 2017-2019 | 20 | 1,588 | 100 | 10,241 | 25.1 | 20.0 | 0.6 | 16.3 | 25.0 | 4.2 | 15.4 | 20.0 | 12.8 | 43.2 | 35.0 | 60.2 | 0.0 | 0.0 | 22.3 | | |
| Total | 20 | 1,588 | 100 | 10,241 | 25.1 | 20.0 | 0.6 | 16.3 | 25.0 | 4.2 | 15.4 | 20.0 | 12.8 | 43.2 | 35.0 | 60.2 | 0.0 | 0.0 | 22.3 | | |

*Source: 2015 ACS Census; 01/01/2017 - 12/31/2019 Bank Data, 2019 HMDA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

| Table Q: Assessment Area Distribution of Loans to Small Businesses by Income Category of the Geography | | | | | | | | | | | | | | | | | | | | 2017-19 | |
|---|---------------------------------|------------|------------|----------------|-------------------|--------------|------------|------------------------|--------------|-------------|----------------------|--------------|-------------|---------------------|--------------|-------------|-----------------------------|--------------|------------|----------------|--|
| Assessment Area: | Total Loans to Small Businesses | | | | Low-Income Tracts | | | Moderate-Income Tracts | | | Middle-Income Tracts | | | Upper-Income Tracts | | | Not Available-Income Tracts | | | | |
| | # | \$ | % of Total | Overall Market | % Businesses | % Bank Loans | Aggregate | % Businesses | % Bank Loans | Aggregate | % Businesses | % Bank Loans | Aggregate | % Businesses | % Bank Loans | Aggregate | % Businesses | % Bank Loans | Aggregate | | |
| Hidalgo County 2017-2019 | 20 | 932 | 100 | 11,401 | 0.5 | 5.0 | 0.5 | 19.0 | 15.0 | 18.8 | 34.4 | 45.0 | 35.3 | 46.0 | 35.0 | 45.2 | 0.2 | -- | 0.2 | | |
| Total | 20 | 932 | 100 | 11,401 | 0.5 | 5.0 | 0.5 | 19.0 | 15.0 | 18.8 | 34.4 | 45.0 | 35.3 | 46.0 | 35.0 | 45.2 | 0.2 | -- | 0.2 | | |

*Source: 2019 D&B Data; 01/01/2017 - 12/31/2019 Bank Data; 2018 CRA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

| Table R: Assessment Area Distribution of Loans to Small Businesses by Gross Annual Revenues | | | | | | | | | | | | 2017-19 | |
|--|---------------------------------|------------|------------|----------------|---------------------------------|--------------|-------------|--------------------------------|--------------|--|--------------|----------------|--|
| Assessment Area: | Total Loans to Small Businesses | | | | Businesses with Revenues <= 1MM | | | Businesses with Revenues > 1MM | | Businesses with Revenues Not Available | | | |
| | # | \$ | % of Total | Overall Market | % Businesses | % Bank Loans | Aggregate | % Businesses | % Bank Loans | % Businesses | % Bank Loans | | |
| Hidalgo County 2017-2019 | 20 | 932 | 100 | 11,401 | 86.2 | 90.0 | 38.0 | 3.9 | 18.03 | 9.9 | 0.0 | | |
| Total | 20 | 932 | 100 | 11,401 | 86.2 | 90.0 | 38.0 | 3.9 | 18.03 | 9.9 | 0.0 | | |

*Source: 2019 D&B Data; 01/01/2017 - 12/31/2019 Bank Data; 2018 CRA Aggregate Data, "--" data not available.
Due to rounding, totals may not equal 100.0%*

| Table U: Assessment Area Distribution of Consumer Loans by Income Category of the Geography | | | | | | | | | | | | | | 2017-19 |
|--|----------------------|-----------|------------|-------------------|--------------|------------------------|--------------|----------------------|--------------|---------------------|--------------|-----------------------------|--------------|----------------|
| Assessment Area: | Total Consumer Loans | | | Low-Income Tracts | | Moderate-Income Tracts | | Middle-Income Tracts | | Upper-Income Tracts | | Not Available-Income Tracts | | |
| | # | \$ | % of Total | % of Households | % Bank Loans | % of Households | % Bank Loans | % of Households | % Bank Loans | % of Households | % Bank Loans | % of Households | % Bank Loans | |
| Hidalgo County 2017-2019 | 20 | 98 | 100 | 1.3 | 0.0 | 25.7 | 25.0 | 41.3 | 45.0 | 31.4 | 30.0 | 0.2 | 0.0 | |
| Total | 20 | 98 | 100 | 1.3 | 0.0 | 25.7 | 25.0 | 41.3 | 45.0 | 31.4 | 30.0 | 0.2 | 0.0 | |

*Source: 2015 ACS Census; 01/01/2017 - 12/31/2019 Bank Data.
Due to rounding, totals may not equal 100.0%*

| Table V - Assessment Area Distribution of Consumer Loans by Income Category of the Borrower | | | | | | | | | | | | | | 2017-19 |
|--|----------------------|-----------|------------|----------------------|--------------|---------------------------|--------------|-------------------------|--------------|------------------------|--------------|--------------------------------|--------------|----------------|
| Assessment Area: | Total Consumer Loans | | | Low-Income Borrowers | | Moderate-Income Borrowers | | Middle-Income Borrowers | | Upper-Income Borrowers | | Not Available-Income Borrowers | | |
| | # | \$ | % of Total | % of Households | % Bank Loans | % of Households | % Bank Loans | % of Households | % Bank Loans | % of Households | % Bank Loans | % of Households | % Bank Loans | |
| Hidalgo County 2017-2019 | 20 | 98 | 100 | 26.6 | 15.0 | 15.2 | 25.0 | 14.9 | 20.0 | 43.4 | 30.0 | 0.0 | 10 | |
| Total | 20 | 98 | 100 | 26.6 | 15.0 | 15.2 | 25.0 | 14.9 | 20.0 | 43.4 | 30.0 | 0.0 | 10.0 | |

*Source: 2015 ACS Census; 01/01/2017 - 12/31/2019 Bank Data.
Due to rounding, totals may not equal 100.0%*