



PUBLIC DISCLOSURE

November 27, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Ozona National Bank
Charter Number 7748

P.O. Box 430
Ozona, TX 76943

Office of the Comptroller of the Currency

San Antonio South Field Office
10001 Reunion Place, Suite 250
San Antonio, TX 78216-4133

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

The Lending Test is rated: Satisfactory.

Ozona National Bank (ONB) has a satisfactory record of meeting community credit needs. We based our conclusion on ONB's lending practices. We evaluated these practices through review of samples of the bank's primary loan product. The rating is based on the following findings:

- ONB's average quarterly loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs in the assessment areas (AAs). The ratio has averaged 63.01 percent since the last Community Reinvestment Act examination.
- The bank made a substantial majority of the loans in our sample to borrowers within its AAs both by number, 64.80 percent, and dollar volume, 52.69 percent.
- ONB has reasonable penetration to borrowers of various income levels and to businesses and farms of different sizes.
- The geographic distribution of loans showed excellent penetration in low and moderate-income geographies.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout 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. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: 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; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, 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, home equity 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 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), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

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 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 income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

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 MA/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. 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 it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

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.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

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.

Rated Area: A rated area is a state or multi-state metropolitan 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 area, the institution will receive a rating for the multi-state metropolitan 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 One 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.

Description of Institution

ONB, an intrastate bank headquartered in Ozona, Texas, was chartered in 1905 and is wholly owned by Ozona Bancshares, Inc., a one-bank holding company. ONB reported total assets of \$253 million and tier one capital of \$25 million at September 30, 2017. It has four offices: the main office located in Ozona and three branches located in San Marcos, Wimberley, and San Antonio. ONB provides full service deposit and loan products at all branches.

The main office and all three branches have a walk-in teller lobby and a drive-up motor bank. The Ozona, Wimberley, and San Marcos offices all have Automated Teller Machines (ATMs) located either at the branch or within the bank’s vicinity. All offices accept loan applications and all loans are closed in the office where the application originated. Additionally, customers can access their depository accounts through the internet, ATMs, telebank, and through ONB’s mobile banking application. Significant changes since the last CRA examination include closure of the Bowie branch and conversion of the San Antonio loan production office into a full-service branch. There have been no other significant changes to ONB’s corporate structure, including merger or acquisition activities.

At September 30, 2017, ONB reported tier one capital of \$25 million and a tier one leverage ratio of 9.88 percent. Net loans totaled \$161 million and represented 71 percent of total deposits and 64 percent of total assets. ONB’s lending focus centers in commercial lending. As shown in the following table, commercial loans comprise the majority of the loan portfolio.

Loan Portfolio Composition as of September 30, 2017		
Loan Type	Volume (\$000)	% of Total Loans
Residential Real Estate Loans	51,626	21%
Commercial Loans	177,418	71%
Consumer Installment Loans	10,420	4%
Agricultural Loans	9,147	4%

Source: Internal bank reports.

ONB faces strong competition from other local financial institutions (FIs) in two of its three AAs. Primary competitors include USAA Federal Savings Bank, Frost Bank, Broadway National Bank, International Bank of Commerce, and Citizens State Bank of Luling. According to the FDIC’s June 30, 2017 Deposit Market Share Reports, ONB is ranked 41st out of 41 FIs in Bexar County, with 1 percent of the total market share of deposits, 5th out of 21 in Hays County, with 8 percent of the total market share of deposits, and 1st out of 2 in Crockett County, with 59 percent of the total market share of deposits.

Based on its financial condition, the local economy, product offerings, and competition, ONB has the ability to meet the various credit needs in its community. No legal impediments or other factors hinder ONB’s ability to provide credit in its AAs. The previous CRA examination, dated February 6, 2012, rated ONB “Satisfactory” under the small bank criteria.

Scope of the Evaluation

Evaluation Period/Products Evaluated

This Performance Evaluation assesses the bank's performance under the lending test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its primary lending activities. As can be seen in the below table, ONB's primary products include commercial loans, by dollar volume, and consumer loans, by number originated. Where applicable, a sample of 20 of each of these products were tested in each AA, excluding residential real estate loans which included the entire population. Primary products identified for the Bexar County AA include residential mortgage and commercial loans. The level of consumer lending in the Bexar County AA was not significant enough to produce a meaningful analysis and was excluded. Primary products identified for the Hays County AA include residential mortgage, commercial, and consumer loans. Primary products identified for the Crockett County AA include commercial and consumer loans. The level of residential lending in the Crockett County AA was not significant enough to produce a meaningful analysis and was excluded. Though agricultural lending did not make up a significant portion of lending, ONB considers it to be a primary lending product for the Crockett County AA and was included in our evaluation.

Loan Originations and Purchases During the Evaluation Period By Loan Type		
Loan Type	% by Dollar of Loans	% by Number of Loans
Residential Real Estate Loans	38%	13%
Commercial Loans	50%	26%
Consumer Installment Loans	4%	56%
Agricultural Loans	8%	5%
Total	100%	100%

Source: Internal bank reports.

The evaluation period for this CRA examination is from February 7, 2012 through November 27, 2017. This time period uses the most current 2010 U.S. Census data in the analysis. The LTD quarterly average ratio was calculated from the date of the last CRA evaluation, which is from the beginning of first quarter 2012 through the end of third quarter 2017. ONB's performance under the CRA is satisfactory, and management has been successful in meeting the credit needs of the bank's AAs.

Data Integrity

The sampling period used for this evaluation included all loans originated, purchased, or renewed from January 1, 2015 to November 27, 2017. As ONB had less than 40 HMDA reportable loans per sampling year, we reviewed the full population of LAR data for years 2015, 2016, and 2017 to ensure that the data was being input appropriately in accordance with FFIEC requirements. We found that the error volume was not significant and the data is reliable. For loans sampled to test commercial, consumer,

and agricultural lending, information reported was traced back to source documents. We found no discrepancies between bank reported and source document data.

Selection of Areas for Full-Scope Review

ONB has designated Bexar, Crockett, and Hays Counties as its three AAs. Our review of the areas determined that they meet the regulatory requirements of CRA as they consist of whole geographies and do not reflect any illegal discrimination or arbitrarily exclude any low- or moderate-income geographies. We conducted a full-scope review of each AA. Please refer to the tables in Appendix A for more information.

Ratings

The bank's overall rating is based on the full-scope reviews of its three AAs. Commercial and consumer lending were given the most weight in determining the Lending Test rating as these two loan products constitute the majority of the bank's lending activities by dollar volume and number originated. While residential real estate lending made up a third of the dollar volume of loans, the number originated in ONB's AA is minimal. When further broken down to originations in each AA, the amount becomes so small that meaningful analysis could not be derived from the data. However, residential lending data must be reviewed as part of the assessment, as it was identified as a primary product, but less weight was given to this area.

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 assessment area 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 Consumer Financial Protection Bureau, 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.

Conclusions with Respect to Performance Tests

LENDING TEST

ONB's performance under the CRA is satisfactory and management has been successful in meeting the credit needs of the bank's AAs. ONB has demonstrated satisfactory performance based upon its reasonable average quarterly LTD ratio, the majority of loans originated inside the AAs, reasonable lending penetration to borrowers of various income levels and to businesses and farms of different sizes; and excellent lending penetration to low and moderate-income geographies.

Loan-to-Deposit Ratio

The quarterly average LTD ratio is reasonable given the bank's capacity to lend, market competition, local demographic and economic factors, and lending opportunities available in the AAs. During the evaluation period, the average quarterly LTD ratio was 63 percent and ranged from a low of 53 percent at December 31, 2012 to a high of 75 percent at September 30, 2016. To assess ONB's performance, we compared ONB's average quarterly LTD ratio to three similarly situated community banks with total assets ranging from \$253 million to \$362 million. ONB's LTD ratios were in line with the peer group during the evaluation period. The peer group average quarterly LTD was 74 percent with a low of 64 percent and a high of 83 percent.

Please note that these banks are listed alphabetically by city, and no ranking is intended or implied. Also note that the LTD ratio is calculated on a bank-wide basis.

Institution	Total Assets (\$000s) As of 09/30/2017	Average Quarterly LTD Ratio As of 09/30/2017
Lone Star Capital Bank, N.A.	255,189	70.69
Ozona National Bank	253,383	63.01
Sage Capital Bank, N.A.	362,873	64.79
Texstar National Bank	253,073	85.41

Source: Institution Reports of Condition from January 2012 to September 2017

Lending in Assessment Area

ONB originated a majority of residential real estate, commercial, consumer, and agricultural loans within its AAs and exhibits satisfactory performance. In order to assess ONB's performance, we reviewed 20 commercial, consumer, and agricultural loans originated between January 1, 2015 and November 27, 2017. We also reviewed all residential loans reported under HMDA originated during the evaluation period. Of the loans in our sample, 65 percent by number and 53 percent by dollar volume were inside the AAs. The following table illustrates ONB's lending activities in and out of the AAs for its primary loan types. Please note that the proportion of lending inside versus outside the bank's assessment area is calculated on a bank wide basis.

Table 1 - Lending in Bexar, Crockett, and Hays Counties AAs										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	67	56.30	52	43.70	100	14,603	42.30	19,918	57.70	100
Commercial	16	80.00	4	20.00	100	6,639	89.83	752	10.17	100
Agricultural	16	80.00	4	20.00	100	1,839	88.80	232	11.20	100
Consumer	17	85.00	3	15.00	100	244	85.31	42	14.69	100
Totals	116	64.80	63	35.20	100	23,325	52.69	20,944	47.31	100

Source: Data reported under HMDA and sample of commercial, agricultural, and consumer loans from January 1, 2015 through November 27, 2017.

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

ONB demonstrates satisfactory performance in lending to individuals of different income levels and businesses and farms of different sizes. Commercial and consumer lending exhibited an overall reasonable penetration rates while residential lending reflected poor penetration. However, compensating factors and higher performance in commercial and consumer lending support a satisfactory lending effort by the bank and an overall reasonable penetration rate.

Performance in the Bexar County AA

The borrower distribution of loans in the Bexar County AA is satisfactory and shows reasonable penetration with more weight being placed on commercial lending in the area. Residential lending showed poor penetration but was given less weight as number and dollar volume of loans originated in the AA were minimal.

Residential Real Estate Loans

The distribution of home loans to borrowers reflects very poor penetration among borrowers of different income levels. ONB made no home loans to low-income borrowers during the evaluation period and 4 percent to moderate-income borrowers. The demographic data indicates that 24 percent of families in the AA are low-income and 17 percent are moderate-income. It should be noted that only 25 residential real estate loans were made in the Bexar County AA and only 12 of these loans had HMDA reportable borrower income information. As such, minimal weight was given to these results.

One mitigating factor in the penetration of low-income families is the fact that households below the poverty level represent 13.23 percent of the total households in the Bexar County AA. Borrowers living below the poverty level could have a difficult time qualifying for home loans. Additionally, ONB's branch in Bexar County is located in the Northern part of the county and is surrounded primarily by middle and upper-income census tracts. Based on demographic data, low to moderate-income families make up approximately 18 percent of middle-income census tracts and 8 percent of the upper-

income census tracts. Given the bank's location and the make-up of the surrounding tracts, lending opportunities to low to moderate-income individuals are minimal. Lending competition in Bexar County is also high with large national institutions such as USAA, Bank of America, Wells Fargo, and Citibank further limiting ONB's ability to make residential loans.

The following table shows the distribution of home loans among borrowers of different income levels compared to the percent of families in each income category.

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
Residential Real Estate	24.03	0.00	17.32	4.00	19.23	0.00	39.43	44.00

Sources: Data reported under HMDA for 2015, 2016, and 2017; U.S. 2010 Census data.

Note: No income information was available for 52 percent of residential real estate loans in the Bexar County AA.

Commercial Loans

ONB's pattern of lending to small businesses, those with gross annual revenues less than \$1 million, is satisfactory and reflects reasonable penetration when compared with the percentage of businesses in the AA. 2016 business demographic information reports that 84 percent of businesses in the AA have revenues of less than \$1 million. Based on our sample, ONB made 75 percent by number and 64 percent by dollar to these same businesses. The following table shows the distribution of commercial loans among different sized businesses in the Bexar County AA.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	83.90	5.18	10.92	100%
% of Bank Loans in AA by #	75.00	25.00	0.00	100%
% of Bank Loans in AA by \$	64.30	35.70	0.00	100%

Source: Loan sample; Dunn and Bradstreet data; 2016 Business Demographic Summary, Non-Farm

Performance in the Crockett County AA

The borrower distribution of loans in the Crockett County AA is outstanding and shows excellent penetration. The Crockett County AA contains only one census tract which was identified by the FFIEC as a distressed or underserved area for every year of the evaluation period. This classification lends positive weight to any lending performed in the area.

Commercial Loans

ONB’s pattern of lending to small businesses is outstanding and reflects excellent penetration when compared with the percentage of small businesses in the AA. 2016 business demographic information reports that 65 percent of businesses in the AA have revenues of less than \$1 million. Based on our sample, ONB made 80 percent by number and 64 percent by dollar to these same businesses. The following table shows the distribution of commercial loans among different sized businesses in the Crockett County AA.

Table 2A - Borrower Distribution of Loans to Businesses in Crockett County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64.85	4.95	30.20	100%
% of Bank Loans in AA by #	80.00	20.00	0.00	100%
% of Bank Loans in AA by \$	63.54	36.46	0.00	100%

Source: Loan sample; Dunn and Bradstreet data; 2016 Business Demographic Summary, Non-Farm

Consumer Loans

ONB’s record of consumer lending to low and moderate-income borrowers in the Crockett County AA shows excellent penetration and outstanding performance. Demographic data shows that 19 percent of households in the AA are considered low-income and 13 percent are considered moderate-income. Our sample found that 45 and 20 percent of loans originated were to low and moderate-income individuals, respectively.

Table 2B - Borrower Distribution of Consumer Loans in Crockett County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	18.82	45.00	12.71	20.00	10.41	15.00	58.06	20.00

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

Agriculture/Farm Loans

The distribution of agriculture/farm loans reflects excellent penetration among farms of different sizes and outstanding performance. 95 percent by loans originated and 97 percent by dollar volume of the agriculture/farm loans that originated during the loan sampling period were to small farms, defined as farms and ranches with gross annual revenues of \$1 million or less. This is considered excellent compared to demographic data that shows 95 percent of the area’s farms are considered small farms. The following table shows the distribution of agriculture/farm loans among different sized businesses.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	95.45	0.00	4.55	100%
% of Bank Loans in AA by #	95.00	5.00	0.00	100%
% of Bank Loans in AA by \$	96.93	3.07	0.00	100%

Source: Loan sample; Dunn and Bradstreet data; 2016 Business Demographic Summary, Farm

Performance in the Hays County AA

The borrower distribution of loans in the Hays County AA is satisfactory and shows reasonable penetration. More weight was given to the excellent penetration of commercial and consumer lending as these loan products constituted the majority of dollar and loan volume for the AA. By dollar amount and loan originations, commercial loans made up 73 percent and 43 percent of all lending done in the AA, respectively. Consumer loans comprised 10 percent of dollar amount and 51 percent of loan originations. In contrast, residential lending comprised 17 percent of dollar amount and only 5 percent of loan originations for the Hays County AA. Additionally, while poor penetration was seen in low and moderate-income borrowers for residential lending, consumer lending to these same class of borrowers was substantially higher and demonstrates that ONB does lend to low and moderate-income borrowers.

Residential Real Estate Loans

The distribution of home loans to borrowers reflects poor penetration among borrowers of different income levels. ONB made 13 percent of home loans to low-income borrowers during the evaluation period and 5 percent to moderate-income borrowers. Demographic data indicates that 19 percent of families in the AA are low-income and 17 percent are moderate-income. While penetration to low-income borrowers is reasonable, lending to moderate-income borrowers is significantly lower. Poor penetration is primarily due to high competition for lending in the Hays County AA. Major competitors include Bank of America, Frost Bank, Broadway National Bank, and JP Morgan Chase Bank.

The following table shows the distribution of home loans among borrowers of different income levels compared to the percent of families in each income category.

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
Residential RE	19.34	12.82	16.77	5.13	21.51	12.82	42.38	46.15

Sources: Data reported under HMDA for 2015, 2016, and 2017; U.S. 2010 Census data. Note: No income information was available for 23.08 percent of residential real estate loans in the Hays County AA.

Commercial Loans

ONB’s pattern of lending to small businesses in the Hays County AA is outstanding and reflects excellent penetration when compared with the percentage of businesses in the AA. 2016 business demographic information reports that 86 percent of businesses in the AA have revenues of less than \$1 million. Based on our sample, ONB made 80 percent by number and 86 percent by dollar to these same businesses. The following table shows the distribution of commercial loans among different sized businesses in the Hays County AA.

Table 2A - Borrower Distribution of Loans to Businesses in Hays County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	86.29	3.55	10.16	100%
% of Bank Loans in AA by #	80.00	20.00	0.00	100%
% of Bank Loans in AA by \$	85.58	14.42	0.00	100%

Source: Loan sample; Dunn and Bradstreet data; 2016 Business Demographic Summary, Non-Farm

Consumer Loans

ONB’s record of consumer lending to low and moderate-income borrowers in the Hays County AA shows excellent penetration and outstanding performance. Demographic data shows that 27 percent of households in the AA are considered low-income and 15 percent are considered moderate-income. Our sample found that 50 and 40 percent of loans originated were to low and moderate-income individuals, respectively.

Table 2B - Borrower Distribution of Consumer Loans in Hays County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	26.87	50.00	14.99	40.00	16.87	5.00	41.27	5.00

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

Geographic Distribution of Loans

ONB’s geographic distribution of loans reflects excellent dispersion and outstanding performance throughout its AAs given the bank’s size, primary loan products, and the AAs demographics. No significant lending gaps were found within the bank’s AAs.

Performance in the Bexar County AA

The geographic distribution of loans in the Bexar County AA is outstanding and shows excellent dispersion with more weight being placed on commercial lending in the area. As with the borrower distribution, residential real estate lending was given less weight

as number and dollar volume of loans originated was not significant in the Bexar County AA.

Residential Real Estate Loans

The geographic distribution of residential real estate loans reflects reasonable dispersion and satisfactory performance. As shown in the below table, 5 percent of owner occupied housing resides in a low-income census tract and 27 percent resides in moderate-income tracts. ONB lending in these areas reasonably matches these amounts with 4 percent of loans made to low-income tracts and 20 percent of loans made to moderate-income tracts.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Bexar County AA								
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
Residential RE	5.31	4.00	26.57	20.00	32.30	28.00	35.82	48.00

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

Commercial Loans

The geographic distribution of business loans reflects excellent dispersion and outstanding performance. The proportion of loans to businesses located within moderate-income tracts substantially exceeds the percentage of businesses in the moderate-income census tracts. Lending to businesses located in low-income tracts is in-line with demographic data for total number of businesses located in low-income tracts.

Table 3A - Geographic Distribution of Loans to Businesses in Bexar County 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
Businesses	5.69	5.00	23.46	40.00	29.59	15.00	40.99	40.00

Source: Loan sample, 2016 Business Demographic Data by Income of Tract, Total Non-Farm Businesses

Performance in the Crockett County AA

Crockett County contains only one census tract which as of 2017 was classified as upper-income so a geographic analysis is not meaningful; however, the census tract has been designated as a distressed or underserved area over the entire sampling period. As such, any lending done in the area lends positive weight to the overall geographical lending test.

Performance in the Hays County AA

The geographic distribution of loans in the Hays County AA is outstanding and shows excellent dispersion. Additionally, ONB has invested \$1 million in the Valesco Commerce Street Capital Fund. Monies provided by Valesco are used to invest in growth-oriented, lower/middle market businesses seeking expansion, acquisitions, recapitalizations, and buyouts primarily in the South-Central US. Funds invested by ONB have been specifically set aside to fund businesses in the Hays County area.

Residential Real Estate Loans

The geographic distribution of residential real estate loans reflects excellent dispersion and outstanding performance. Demographic data shows that 15 percent of owner occupied housing resides in a low or moderate-income census tract. ONB's lending to these areas exceeds this amount with 18 percent of loans originating to low or moderate-income tracts. The following table shows the distribution of residential lending among different income census tracts in the Hays County AA.

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
Residential RE	0.66	5.13	14.32	12.82	49.76	69.23	35.26	12.82

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

Commercial Loans

The geographic distribution of business loans reflects excellent dispersion and outstanding performance in the Hays County AA. As can be seen in the following table, the proportion of loans to businesses located within low-income tracts substantially exceeds the percentage of businesses in these tracts. Lending to businesses located in moderate-income tracts also exceeds demographic data for total number of businesses located in these tracts.

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
Businesses	2.46	20.00	23.09	25.00	36.00	55.00	38.45	0.00

Source: Loan sample, 2016 Business Demographic Data by Income of Tract, Total Non-Farm Businesses

Consumer Loans

The geographic distribution of consumer loans reflects excellent dispersion and outstanding performance. Lending in low and moderate-income tracts exceeded the proportion of households as shown in the table below.

Table 3B - Geographic Distribution of Consumer Loans in Hays County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Househ olds	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	5.09	15.00	23.02	30.00	40.89	55.00	31.00	0.00

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

Responses to Complaints

No complaints relating to CRA performance have been received by ONB. This has a neutral impact on ONB’s overall performance.

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 metropolitan and nonmetropolitan areas 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	Lending Test (excludes CD loans): 02/07/2012 to 11/27/2017	
Financial Institution		Products Reviewed
Ozona National Bank (ONB) Ozona, TX		Residential real estate, commercial, consumer, and agricultural loans
Affiliate(s)	Affiliate Relationship	Products Reviewed
None	None	N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Bexar County	Full Scope	Part of the San Antonio-New Braunfels MSA 41700.
Crockett County	Full Scope	Non-MSA; contains only 1 upper income census tract; tract identified as being distressed or underserved
Hays County	Full Scope	Part of the Austin-Round Rock MSA 12420

Appendix B: Community Profiles for Full-Scope Areas

Bexar County

Demographic Information for Full-Scope Area: Bexar County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	366	9.84	31.42	28.96	28.69	1.09
Population by Geography	1,714,773	7.73	31.87	30.80	29.58	0.00
Owner-Occupied Housing by Geography	362,686	5.31	26.57	32.30	35.82	0.00
Businesses by Geography	105,641	5.69	23.46	29.59	40.99	0.27
Farms by Geography	2,088	4.07	17.58	30.84	47.41	0.10
Family Distribution by Income Level	394,340	24.03	17.32	19.23	39.43	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	163,037	13.37	45.31	28.16	13.15	0.00
Median Family Income	= \$62,228	Median Housing Value				= \$134,349
FFIEC Adjusted Median Family Income for 2017	= \$64,300	Unemployment Rate (2016 ACS US Census)				= 6.7%
Households Below the Poverty Level	= 15.88%					

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 U.S. Census, and 2017 FFIEC updated MFI.

Bexar County is located within South Central Texas and is included in the San Antonio-New Braunfels MSA. Bexar County is the 17th-most populous county in the nation and the fourth-most populated in Texas. Its county seat is San Antonio, the second-most populous city in Texas and the seventh-largest city in the United States. Located 75 miles southwest of Austin (Texas' capital), 190 miles west of Houston and 150 miles north of the Mexican border at Laredo, San Antonio is an important commercial and transportation center for Southern Texas and Northern Mexico.

As of the 2010 United States Census, there were 1,714,773 people residing in the county. San Antonio is projected to welcome 1.1 million new residents by 2040. San Antonio stands as Bexar County's largest city, accounting for almost 40 percent of the county's geographic area and about 75 percent of the county's estimated population. San Antonio encompasses a total geographic area of 467 square miles with a population density of 3,395 persons per square mile. The total land area for Bexar County is 1,247 square miles with a population density of 1,383 persons per square mile.

San Antonio's employers support a healthy and diverse economy with a blend of well-established financial services, rapidly growing biomedical and biotech sectors, IT and cybersecurity fields and a robust manufacturing sector that produces everything from aircrafts to Toyota trucks. The city's central location has made it the hub for economies in the South Central Texas region and Mexico. San Antonio's employment in November 2016 was 1,012,700 compared to 996,900 in November 2015. The

city's unemployment rate was 3.7 percent compared to 4.6 percent in Texas and 4.6 percent in the U.S in the same time period.

Often referred to as Military City, USA, San Antonio has a strong military presence, with four major military bases as part of Joint Base San Antonio (JBSA). San Antonio is home to one of the largest active and retired military populations in the nation. The four military bases include: Randolph Air Force Base – Headquarters for Air Education and Training Command and the Air Force Military Personnel Center; Fort Sam Houston – Brooke Army Medical Center, Institute of Surgical Research, Defense Medical Readiness Training Institute; Lackland Air Force Base – Air Force Basic Training and headquarters for Air Force Intelligence Agency; and Camp Bullis – Provides Base Operations Support and Training Support to JBSA.

We contacted a local community organization who works to provide affordable housing for low to moderate-income families. The contact indicated that there is a high demand for affordable housing in the lower income areas of Bexar County. The contact indicated that a family with one fulltime worker earning the minimum wage cannot afford (at 30 percent of income) the local fair-market rent for a two-bedroom apartment anywhere in Bexar County. Households with two fulltime incomes lack the income to cover fair-market rents on such a unit without exceeding the 30 percent of income threshold for affordability. 41 percent of San Antonio renter households are unable to afford the rent for a typical two bedroom apartment. More than 6,893 poor San Antonio renter households live in physically deficient housing, while 153,672 people have an unmet housing need. The contact indicated that local financial institutions are active in helping fund their organization's goals.

Crockett County

Demographic Information for Full-Scope Area: Crockett County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	1	0.00	0.00	0.00	100	0.00
Population by Geography	3,719	0.00	0.00	0.00	100	0.00
Owner-Occupied Housing by Geography	771	0.00	0.00	0.00	100	0.00
Businesses by Geography	202	0.00	0.00	0.00	100	0.00
Farms by Geography	22	0.00	0.00	0.00	100	0.00
Family Distribution by Income Level	1,011	23.44	10.29	22.85	43.42	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	341	0.00	0.00	0.00	100	0.00
Median Family Income	= \$52,076	Median Housing Value				= \$60,800
FFIEC Adjusted Median Family Income for 2017	= \$54,200	Unemployment Rate (2016 ACS US				= 6.7%
Households Below the Poverty Level	= 14.14%	Census)				

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census, and 2017 FFIEC updated MFI.

Crockett County is a rural county located in West Texas. As of the 2010 census, its population was 3,719. Ozona serves as the county seat and houses the majority of the population with 3,225 persons residing in the city. Ozona is the only Census Bureau recognized community in Crockett County. Ozona is located on Interstate 10 approximately 200 miles west of San Antonio and 82 miles southwest of San Angelo.

Economic activity is centered in agriculture, ranching, and the oil and gas industry. The current local economy is characterized as stable though it has been on a downward trend over the past 5 years due to the decline in the oil and gas activity. Average unemployment is low. The county's single major employer is the school district. Competition from other financial institutions is low, as there is only one other financial institution located in Crockett County.

We contacted a member of a government agency that serves Crockett County who indicated that the community's current economic condition has declined. She indicated that there is not a lot of opportunity for growth in the business community as there is limited property to build on. Much of the community's land is privately held and owners have been reluctant to sell their land. The contact indicated many community members choose to live in the county as they appreciate the quiet lifestyle and do not wish to see it intruded on by outside development. She also indicated that residential real estate is very limited and as such the value of homes is very high due to limited supply and demand. Based on this information she feels that the main opportunity for financial institutions to aid in community development is by providing agriculture/farm and home construction loans.

Hays County

Demographic Information for Full-Scope Area: Hays County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	25	4.00	28.00	40.00	28.00	0.00
Population by Geography	157,107	3.33	26.38	41.46	28.82	0.00
Owner-Occupied Housing by Geography	32,241	0.66	14.32	49.76	35.26	0.00
Businesses by Geography	11,180	2.46	23.09	36.00	38.45	0.00
Farms by Geography	365	1.10	15.07	40.00	43.84	0.00
Family Distribution by Income Level	32,834	19.34	16.77	21.51	42.38	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	11,855	5.66	31.95	44.77	17.62	0.00
Median Family Income	= \$78,997	Median Housing Value				= \$170,552
FFIEC Adjusted Median Family Income for 2017	= \$81,400	Unemployment Rate (2016 ACS US Census)				= 6.1%
Households Below the Poverty Level	= 16.49%					

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census, and 2017 FFIEC updated MFI.

Hays County is located in Central Texas and is part of the Austin-Round Rock-San Marcos MSA approximately 30 miles south of Austin and 65 miles north of San Antonio. The county includes several cities including Buda, Dripping Springs, Hays, Kyle, Wimberley, and San Marcos, the county seat. Major highways through the county include Interstate 35, U.S. Highway 290, and State Highways 21 and 80. In 2015 and 2016, the U.S. Census Bureau rated Hays County as the fastest growing large county, a county with a population over 50,000, in the nation. 2016 Census data estimates the population of the county to be 185,700 with the median age of the county being 31 years old. Approximately 41 percent of the county is age 24 or younger due to the major impact that Texas State University, located in San Marcos, has on the overall population. As of 2016, the student population of Texas State was approximately 38,000.

Major industries primarily include educational services followed by retail trade and food services. Large employers for the county include Texas State University, Amazon through its fulfillment center which was opened in San Marcos in 2016, the San Marcos and Tanger Factory retail outlet centers, and the county's various independent school districts. The current local economy is characterized as good. Economic activity is relatively diverse and includes tourism, dining, and retail and wholesale businesses. Average unemployment rate of 6 percent for the county is slightly higher than the national average of 4.6 percent. Competition from other financial institutions is very high and includes over 20 branches of local, regional, and national financial institutions.

We contacted a member of a local community organization who indicated that the community's current economic condition is good. He indicated that there is a large need for additional housing in the area due to the increasing student population. He also indicated that local businesses have faced increased pressure from larger business chains that have moved in with the recent expansions over the past 3 years. Based on this information he feels that there are opportunities for financial institutions to aid in community development by providing loans to small businesses or funding projects to construct additional off-campus student housing.