



PUBLIC DISCLOSURE

October 28, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Zapata National Bank
Charter Number 14955

7th & Hidalgo
Zapata, TX 78076

Office of the Comptroller of the Currency

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

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

Zapata National Bank's (ZNB) lending performance reflects satisfactory response to meeting community credit needs in its assessment area (AA). Factors that support the rating:

- The average loan-to-deposit (LTD) ratio since the last examination is reasonable.
- A substantial majority of loans originated within the AA.
- Lending activities reflect reasonable penetration to borrowers of different income levels and to businesses of different sizes.
- The geographic distribution of loans reflects excellent dispersion throughout the AA.

SCOPE OF EXAMINATION

We evaluated ZNB's lending activities using Small Bank CRA Examination Procedures. The examination scope covered two evaluation periods, January 1, 2010 through December 31, 2011 (compared to 2000 Census data) and January 1, 2012 through September 30, 2013 (compared to 2010 Census data). We analyzed loan originations in both evaluation periods and identified residential loans, commercial loans, and consumer loans as primary products.

We selected a sample of 20 loans for each primary product and for each evaluation period resulting in a total sample of 120 loans (60 loans for each evaluation period). We used the original samples to determine lending inside the AA and then replaced loans that originated outside the AA with loans originating inside the AA to determine borrower distribution and geographic distribution.

DESCRIPTION OF INSTITUTION

ZNB, a full-service, intrastate bank headquartered in Zapata, Texas, is a wholly owned subsidiary of Zapata Bancshares, Inc., a one-bank holding company based in Zapata. ZNB has one location that includes the main lobby, an onsite automated teller machine (ATM), and a drive-up facility. A standalone ATM is located on U.S. Highway 83 approximately one mile north of the main location.

At September 30, 2013, ZNB reported total assets of \$93 million. Tier 1 capital totaled \$11 million and represented almost 12 percent of total assets. Net loans represented 47 percent of total deposits and 41 percent of total assets. As shown in the following table, residential loans comprise the majority of the loan portfolio.

Loan Portfolio Composition as of September 30, 2013	
<i>Loan Category</i>	<i>Outstanding Dollars (%)</i>
Residential	61
Commercial (Business)	21
Consumer	17
Agriculture/Farm	1
Total:	100

Source: September 30, 2013 Call Report

Based on its financial condition and size, there are no legal, financial, or other factors that inhibit ZNB’s ability to meet credit needs in its AA. ZNB’s current business strategy is to continue originating residential loans as its primary loan product. The prior CRA examination, dated May 5, 2008, assigned an overall “Satisfactory” rating to the lending performance of the bank.

DESCRIPTION OF ASSESSMENT AREA

ZNB designated Zapata County, a non-metropolitan statistical area, as its AA. Demographic data reflected Zapata County had three census tracts at the 2000 Census and at the 2010 Census; however, the census tract numbers changed along with the income-level designations. Zapata County had two moderate-income census tracts and one middle-income tract in the 2010 – 2011 evaluation period, and one low-income and two moderate-income census tracts in the 2012 – 2013 evaluation period. Financial competition limited to one state bank affiliated with a much larger state bank headquartered about fifty miles away in Laredo, Texas.

Zapata, the largest city in the County, is an unincorporated community whose major employers include the local school district, health and social services, natural gas and oil, and retail trade industries. In Zapata County, the economy centers on natural gas production, ranching, and tourism. The increase in natural gas production helped stabilize the local economy in recent years. However, local hotel occupancy levels and retail trade revenues declined as hotels opened in the Eagle Ford Shale area (located outside Zapata County) and oilfield workers moved closer to their worksites. In addition, tourism, centered in fishing, hunting, and birding activities, suffered as drug activity, including drug cartel actions, increased along the border and within Zapata County. However, drug activity has declined in recent years resulting in a tourism rebound.

We conducted one community contact with a local community organization located in the AA. The contact indicated affordable housing and personal loans were primary credit needs within the community. The contact indicated there was a need for small business expansion; however, many businesses did not want to relocate to Zapata County.

The following table summarizes demographic data from the 2000 and 2010 Census:

Demographic and Economic Characteristics of Assessment Area		
	2000 Census	2010 Census
Population		
Number of Families	3,194	3,645
Number of Households	3,927	4,431
Number of Owner Occupied Household Units as a % of total Household Units	52.10%	52.85%
Geographies		
Number of Census Tracts	3	3
% Low Income Census Tracts	0%	33%
% Moderate Income Census Tracts	67%	67%
% Middle Income Census Tracts	33%	0%
% Upper Income Census Tracts	0%	0%
Median Family Income (MFI)		
Weighted Average MFI	\$27,135	\$27,708
2010 HUD updated Statewide MFI	\$46,500	
2011 HUD updated Statewide MFI	\$48,600	
2012 HUD updated Statewide MFI		\$49,300
2013 HUD updated Statewide MFI		\$50,500
Economic Indicators		
Unemployment Rate	4.87%	3.80%
Weighted Average Median Housing Value	\$37,403	\$50,419
% of Households Below Poverty Level	29.64%	33.15%

Source: U.S. Census Data

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The quarterly average LTD ratio is reasonable. ZNB had a quarterly average LTD ratio of 39 percent for the twenty-one quarters between June 2008 and June 2013. The ratio ranged from a low of 33 percent at June 30, 2009, to a high of 45 percent at September 30, 2012. Based on call report information, the LTD ratio at September 30, 2013 is 47 percent and represents the highest LTD quarterly ratio since the last CRA examination.

Zapata County does not include any other similarly situated banks. The closest similarly situated institution is First National Bank of Hebbronville located fifty miles northeast of ZNB. From June 30, 2009 through June 30, 2013, it had a quarterly average LTD ratio of 22 percent, ranging from a high of 29 percent at September 30, 2008 to a low of 17 percent at March 30, 2012.

Institution	Total Assets (000's) as of 9/30/2013	Avg. Quarterly LTD Ratio 6/30/2008 - 6/30/2013
First National Bank of Hebbronville Hebbronville, Texas, Jim Hogg County	\$134,784	22
Zapata National Bank Zapata, Texas, Zapata County	\$93,428	39

Lending in Assessment Area

ZNB exceeds the standards for satisfactory performance with a substantial majority of loans originated inside the AA. The following tables reflect the percentages, by number and dollar volume, of loans that originated inside the AA.

2010 – 2011 Evaluation Period:

In this evaluation period, 92 percent of the number, and 96 percent of the dollar volume, of loans originated within the AA.

Lending in Assessment Area January 1, 2010 through December 31, 2011										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	19	95	1	5	20	1,241	98	19	2	1,260
Business	17	85	3	15	20	1,671	95	88	5	1,759
Consumer	19	95	1	5	20	27	96	1	4	28
Total Reviewed:	55	92	5	8	60	2,939	96	108	4	3,047

Source: Loan sample

2012 – 2013 Evaluation Period:

In this evaluation period, 98 percent of the number, and 96 percent of the dollar volume, of loans originated within the AA.

Lending in Assessment Area January 1, 2012 through September 30, 2013										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	19	95	1	5	20	1,967	95	98	5	2,065
Business	20	100	0	0	20	2,765	100	0	0	2,765
Consumer	20	100	0	0	20	35	100	0	0	35
Total Reviewed:	59	98	1	2	60	4,767	98	98	2	4,865

Source: Loan sample

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

Overall, ZNB meets the standards for satisfactory performance with reasonable distribution of loans to borrowers of different incomes and businesses of different sizes.

2010 – 2011 Evaluation Period:

Residential lending activity reflects reasonable distribution of loans originated to borrowers with low- or moderate-income levels. The percentage of loans to these borrowers is somewhat lower than the percentage of low- or moderate-income families in the AA, but showed improvement since the last CRA examination.

Borrower Distribution of Residential Real Estate Loans in Assessment Area January 1, 2010 through December 31, 2011								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential	33	20	20	10	19	20	28	50

Source: Loan sample; U.S. Census data

Commercial lending activity reflects excellent distribution of loans originated to businesses with annual revenues less than \$1 million (small businesses). The percentage of loans originated to small businesses exceeds the percentage of small businesses in the AA.

Borrower Distribution of Loans to Businesses in Assessment Area January 1, 2010 through December 31, 2011				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	61	1	38	100
% of Bank Loans in AA by #	80	20	0	100
% of Bank Loans in AA by \$	43	57	0	100

Source: Loan sample; Dunn and Bradstreet data

Consumer lending activity reflects excellent distribution of loans originated to borrowers with low- or moderate-income levels. The percentage of loans originated to these borrowers exceeds the percentage of low- or moderate-income households in the AA.

Borrower Distribution of Consumer Loans in Assessment Area January 1, 2010 through December 31, 2011								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans
Consumer	33	55	17	30	18	15	32	15

Source: Loan sample; U.S. Census data

2012 – 2013 Evaluation Period:

Residential lending activity reflects poor distribution of loans originated to borrowers with low- or moderate-income levels. The percentage of loans to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of loans to moderate-income borrowers is somewhat lower than the percentage of moderate-income families in the AA.

The poor distribution of loans is reasonable, as 33 percent of the households in the AA are below the poverty level. In addition, the 2010 Census reflected a median housing value of \$50,419, making it difficult for borrowers to qualify for housing. Information obtained from the Zapata Chamber of Commerce website revealed the median price of homes sold in 2012 and 2013 ranged from a low of \$130,000 to a high of \$160,000. These high prices make it even more difficult for borrowers with low- or moderate-income levels.

Borrower Distribution of Residential Real Estate Loans in Assessment Area January 1, 2012 through September 30, 2013								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential	47	10	15	10	11	5	27	75

Source: Loan sample; U.S. Census data

Commercial lending activity reflects excellent distribution of loans originated to businesses with annual revenues less than \$1 million (small businesses). The percentage of loans originated to small businesses exceeds the percentage of small businesses in the AA.

Borrower Distribution of Loans to Businesses in Assessment Area January 1, 2012 through September 30, 2013				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	66	2	32	100
% of Bank Loans in AA by #	80	20	0	100
% of Bank Loans in AA by \$	61	39	0	100

Source: Loan sample; Dunn and Bradstreet data

Consumer lending activity reflects reasonable distribution of loans originated to borrowers with low- or moderate-income levels. The percentage of loans originated to low-income borrowers is somewhat lower than the percentage of low-income households in the AA. The percentage of loans originated to moderate-income borrowers exceeds the percentage of moderate-income households in the AA.

Borrower Distribution of Consumer Loans in Assessment Area January 1, 2012 through September 30, 2013								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans
Consumer	40	20	18	35	14	5	28	40

Source: Loan sample; U.S. Census data

Geographic Distribution of Loans

Overall, the geographic distribution of loans reflects excellent dispersion throughout the assessment area in both evaluation periods.

2010 – 2011 Evaluation Period:

Zapata County had three census tracts, two designated moderate-income and one designated middle-income. The Federal Financial Institutions Examination Council's (FFIEC) website reflects the middle-income census tract is distressed due to poverty and population loss. As reflected in the following tables, the geographic distribution of residential, business, and consumer loans reflects excellent dispersion through the AA. The tables reflect the percentage of loans originated in the moderate-income census tracts exceeds the demographic data for those census tracts.

Geographic Distribution of Residential Real Estate Loans in Assessment Area January 1, 2010 through December 31, 2011								
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	0	0	69	75	31	25	0	0

Source: Loan sample; U.S. Census data

Geographic Distribution of Loans to Businesses in Assessment Area January 1, 2010 through December 31, 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of # of Loans	% of AA Businesses/Farms	% of # of Loans	% of AA Businesses/Farms	% of # of Loans	% of AA Businesses/Farms	% of # of Loans
Business	0	0	53	70	47	30	0	0

Source: Loan sample; Dunn and Bradstreet data

Geographic Distribution of Consumer Loans in Assessment Area January 1, 2010 through December 31, 2011								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans
Consumer	0	0	69	95	31	5	0	0

Source: Loan sample; U.S. Census data

2012 – 2013 Evaluation Period:

Zapata County had three census tracts, one designated low-income and two designated moderate-income. As reflected in the following tables, the geographic distribution of residential, business, and consumer loans reflects excellent dispersion through the AA. The tables reflect the percentage of loans originated in the low- and moderate-income census tracts is near to or exceeds the demographic data for the census tracts.

Geographic Distribution of Residential Real Estate Loans in Assessment Area January 1, 2012 through September 30, 2013								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans						
Residential	26	25	74	75	0	0	0	0

Source: Loan sample; U.S. Census data

Geographic Distribution of Loans to Businesses in Assessment Area January 1, 2012 through September 30, 2013								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/ Farms	% of # of Loans	% of AA Businesses/ Farms	% of # of Loans	% of AA Businesses/ Farms	% of # of Loans	% of AA Businesses/ Farms	% of # of Loans
Business	18	25	82	75	0	0	0	0

Source: Loan sample; Dunn and Bradstreet data

Geographic Distribution of Consumer Loans in Assessment Area January 1, 2012 through September 30, 2013								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans
Consumer	25	35	75	65	0	0	0	0

Source: Loan sample; U.S. Census data

Responses to Complaints

ZNB did not receive any consumer complaints related to its CRA performance between May 5, 2008 (date of the previous CRA examination) and October 28, 2013 (date of current examination).

Fair Lending or Other Illegal Credit Practices Review

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

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