



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

October 10, 2017

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lubbock National Bank  
Charter Number 16752

4811 50th Street Lubbock, TX 79414

Office of the Comptroller of the Currency

5225 South Loop 289 Suite 108 Lubbock, TX 79424-1319

**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.

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## Overall CRA Rating

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

**The Community Development Test is rated: Satisfactory**

Lubbock National Bank (LNB) has a satisfactory record of meeting community credit needs based on the following:

- LNB's loan-to-deposit ratio is reasonable with a quarterly average loan-to-deposit ratio of 62 percent.
- A majority of LNB's loans are within the bank's assessment area (AAs). Approximately 76 percent of the number and 70 percent of the dollar volume of loans were made within the AAs.
- The lending performance to businesses of different sizes is reasonable.
- The geographic distribution of loans to small businesses reflects a reasonable dispersion throughout the AAs.
- LNB's community development performance demonstrates satisfactory responsiveness to the needs of its AAs through community development loans, qualified investments, and community development services.

## 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

LNB is a \$1,059 million intrastate institution headquartered in Lubbock, TX, located in the South Plains area of the state. LNB is a wholly-owned subsidiary of Commerce National Financial Services, Inc. (CNFS). As of June 30, 2017, CNFS's assets totaled \$1,059 million, with LNB comprising 99.9 percent of those assets.

LNB has 11 branch offices, operates 11 automated teller machines (ATMs) in three AAs, and, since the prior evaluation, established one loan production office (LPO) in Fort Worth, TX. Six locations, including the main banking office, are in the Lubbock, TX AA, which is the bank's primary market area. Four offices are located in the Bryan-College Station, TX MSA AA, and one office is in the Austin-Round Rock, TX MSA AA. The bank markets all offices located outside the Lubbock, TX AA under the name of "Commerce National Bank, a branch of Lubbock National Bank." Since the last evaluation, LNB has not closed any branches.

As of June 30, 2017, LNB had total assets of \$1,059 million, with total loans and leases comprising 54 percent of this amount. LNB is primarily a commercial lender, consistent with its business strategy, and loan volumes are heavily concentrated in larger commercial and commercial real estate loans and leases approximating 81 percent of the portfolio. LNB also originates a low volume of residential mortgage loans and consumer loans. The bank now limits residential loans primarily to existing customers and retains the loans for its own portfolio, most of which are investor income-producing properties. As a result, HMDA-reportable residential mortgage loan volume is low. The following table reflects the composition of the bank's loan portfolio as of June 30, 2017:

<b>Loan Portfolio Composition</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate and Construction	331,950	57.9
Commercial and Industrial	130,219	22.7
Residential Real Estate	82,865	14.5
Consumer	16,708	2.9
Lease Financing	8,890	1.6
Agricultural Real Estate and Production	2,565	0.4
Other	109	0.0
<b>TOTAL</b>	<b>\$573,306</b>	<b>100.0%</b>

LNB provides a full range of traditional deposit and loan products, plus trust and retail brokerage services. Each lobby and drive-up location sets hours to meet customer needs, and LNB has ATMs at branches to increase accessibility. Customers may also access their accounts through telephone banking or via the Internet at [www.lubbocknational.com](http://www.lubbocknational.com) or [www.commercenb.com](http://www.commercenb.com). LNB's internet banking program includes features to deposit checks electronically, transfer funds, check account balances, and pay bills. The bank also provides auto loans and other consumer loans through its internet loan application interface.

The bank received a "Satisfactory" rating at the January 6, 2014 CRA evaluation.



LNB has no legal or financial circumstances that would impede the bank's ability to help meet community credit needs.

## Scope of the Evaluation

### *Evaluation Period/Products Evaluated*

We evaluated LNB using the Intermediate Small Bank (ISB) evaluation procedures, which include Lending and Community Development Tests. The Lending Test evaluates the bank's record of meeting the credit needs of its AAs through lending activities, including loan-to-deposit ratio, lending within the assessment areas, borrower distribution, geographic distribution, and responses to complaints. The Community Development Test evaluates the bank's responsiveness to the identified needs of the AAs through lending, qualified investments, and services.

The bank's primary loan product for all AAs is loans to businesses. Residential home mortgages are much lower in volume and are predominantly loans for investor properties. Therefore, we did not consider residential mortgages as a separate loan product group. We evaluated loans originated from January 1, 2014 through August 31, 2017 against 2010 U.S. Census data.

The evaluation period for the Community Development Test uses information from the previous CRA evaluation period, January 1, 2014, through August 31, 2017.

### *Selection of Areas for Full-Scope Review*

The Lubbock, TX AA is the bank's primary AA. The College Station-Bryan, TX MSA AA and the Austin-Round Rock, TX MSA AA are substantially less significant when considering the bank's overall operations, branch network, lending and deposit levels, and deposit market share. The following table reflects demographic and economic information for each of the three assessment areas:

<b>Demographic and Economic Characteristics</b>			
<b>Assessment Area</b>	<b>Lubbock, TX MSA</b>	<b>College Station – Bryan, TX MSA</b>	<b>Austin – Round Rock, TX MSA</b>
<b><i>Population</i></b>			
Number of Families	64,941	46,743	388,214
Number of Households	102,170	79,087	620,073
<b><i>Geographies</i></b>			
Number of Census Tracts	68	52	350
% Low-Income Census Tracts	11.76	11.54	10.29
% Moderate-Income Census Tracts	19.12	26.92	24.57
% Middle-Income Census Tracts	36.76	30.77	35.14
% Upper-Income Census Tracts	30.88	26.92	29.14

% N/A Census Tracts	1.47	3.85	0.86
<b>Median Family Income (MFI)</b>			
2014 FFIEC-Adjusted MFI	\$57,800	\$57,500	\$75,400
2015 FFIEC-Adjusted MFI	\$58,800	\$62,000	\$76,800
2016 FFIEC-Adjusted MFI	\$60,400	\$58,900	\$77,800
<b>Economic Indicators</b>			
Unemployment Rate	3.83%	3.84%	4.41%
2010 Median Housing Value	\$101,335	\$127,252	\$204,319
% of Households Below Poverty Level	18.28	27.31	12.34

Source: 2010 Census data and updated income data

**Lubbock, TX AA**

The AA is comprised only of Lubbock County. The AA does not include Crosby County, though the Crosby County is included in the MSA. LNB removed Crosby County from the AA as they do not have a footprint in the area and historically they have not lent in Crosby County. Lubbock County is located in the South Plains area of West Texas with a current estimated population of 297,891. The city of Lubbock (population 251,528) is the county seat of Lubbock County and the population center of the area. All of the bank’s offices are located within the city of Lubbock. The AA consists of the whole county and does not arbitrarily exclude low- or moderate-income geographies. The AA has 68 census tracts, of which 8 are low-income and 13 are moderate-income.

Economic conditions are very good; the Lubbock Economic Index (LEI) reflects a positive trend over the last six years. Historically, Lubbock’s economy outperforms the rest of the state and the nation overall. Lubbock’s current unemployment rate of 3.83 percent remains one of the lowest in Texas and is below the national rate of 4.2 percent. The area is primarily reliant on agriculture and related industries; education and healthcare are also significant contributors to the local economy. Lubbock’s largest employers, in order of rank, include Texas Tech University, Covenant Healthcare Systems, Texas Tech Health Science Center, UMC Health System, Lubbock Independent School District, and United Supermarkets. The local agricultural economy follows trends in commodity pricing, weather cycles, fluctuating government subsidies of agricultural products and changing transportation costs. Government and professional jobs are increasing. A lower cost of living and favorable access to quality healthcare draws retirees to the Lubbock area.

Lubbock has a lower level of owner-occupied housing than other comparable cities due to the population of college students. According to the 2010 Census data, there are 113,659 total housing units in the AA, of which 54 percent are owner-occupied, 36 percent are renter-occupied, and 10 percent are vacant. A high number of new construction projects are for additional rental units to house college students. Per 2016 Demographic data, the average median housing value was \$101,335.

Banking competition is strong in the AA and includes national, regional, and community banks. As of June 30, 2017, LNBs deposit market share in the AA increased to 8.10

percent, ranking fifth among 25 financial institutions. PlainsCapital Bank and City Bank dominate market share, each holding more than 17 percent. Approximately 74 percent of LNB's deposits are attributable to this AA.

A community contact conducted for this evaluation did not identify any unmet credit needs. The contact indicated that Lubbock banks have a good history of meeting the credit needs of the community. The numerous banks in Lubbock actively participate in a wide variety of community activities and consumer education opportunities.

### **Austin-Round Rock, TX MSA AA**

The AA is comprised of five counties; Travis, Williamson, Bastrop, Caldwell, and Hays Counties, located in Central Texas with a total population of 1,716,289. The AA consists of whole geographies and does not arbitrarily exclude low- or moderate-income geographies. The AA has 350 census tracts, of which 36 are low-income and 86 are moderate-income.

Economic conditions are satisfactory, reflecting rapid improvement after a significant decline from 2009 through 2012, followed by four years of steady growth. The local economy is heavily dependent on state, city, and federal government activities and the University of Texas (UT). UT's research programs have a history of issuing a high level of patents, and there is ongoing demand for technical and professional expertise. The largest private employers in the area include H-E-B Grocers, Seton Healthcare Network, and three major computer hardware/software/technology companies, including Dell Technologies. Per 2016 Demographic data, the average median housing value was \$204,319. The unemployment rate of 4.41 percent is slightly higher than the national rate. There are 676,169 housing units in the AA, of which 54 percent are owner-occupied, 37 percent are renter-occupied, and 8 percent are vacant. Housing is generally affordable.

Banking competition is very strong in the AA and includes national, regional, and community banks. As of June 30, 2017, LNB's deposit share in the AA was 0.18 percent, ranking 39<sup>th</sup> among 67 financial institutions. Wells Fargo Bank, Bank of America, and JPMorgan Chase Bank dominate the market share, each exceeding 17 percent. Only about 8 percent of LNB's deposit are attributable to this AA.

A community contact conducted for this evaluation did not identify any unmet credit needs. The contact stated that the overall performance of local financial institutions is positive and that they are supportive of the various projects sponsored by area economic development organizations.

### **Bryan-College Station, TX MSA AA**

The AA is comprised of three counties, including Brazos, Burleson, and Robertson. The AA is located 100 miles northwest of Houston and 120 miles east of Austin, with a total population of 228,660. The AA consists of whole geographies and does not arbitrarily

exclude low- or moderate-income geographies. The AA has 52 census tracts, of which 6 are low-income and 15 are moderate-income.

Economic conditions are good, reflecting improvement after a moderate decline from 2009 through 2012. The Bryan-College Station Economic Index (B-CSEI) shows positive growth for the last five years. Other economic indicators such as taxable receipts and employment growth also point toward a growing economy. The current unemployment rate is low at 3.8 percent. Similar to both the Lubbock, TX and Austin-Round Rock AAs, the Bryan-College Station AA benefits from a large state university. Texas A&M University with a student body of more than 62,500 is located in College Station. New research startups and businesses seeking employees with doctoral degrees are increasing within the AA. Major employers include Texas A&M University and related entities, St. Joseph Regional Health Center, Bryan and College Station Independent School Districts, Sanderson Farms, and Reynolds & Reynolds (computer hardware/software).

Similar to the other two AAs, Bryan-College Station has a lower level of owner-occupied housing than in other comparable cities due to the population of college students. According to the 2010 Census data, there are 91,594 total housing units within the AA, of which 44 percent are owner-occupied, 42 percent are renter-occupied, and 14 percent are vacant. Homes are generally affordable.

Banking competition is strong in the AA and includes national, regional, and community banks. As of June 30, 2017, LNB's deposit market share in the AA was 2.7 percent, ranking 13<sup>th</sup> out of 21 financial institutions. B,B,&T Company, Wells Fargo Bank, and Prosperity Bank dominate market share, each exceeding 14 percent. Only about 17 percent of LNB's deposits are attributable to this AA.

A community contact conducted for this evaluation did not identify any unmet credit needs. The contact stated that many area banks are supportive of community efforts and actively engage in outreach to low- and moderate-income individuals in the area.

### *Ratings*

The bank's overall rating is based on the three AAs. We placed more emphasis on the Lubbock County AA as the majority of the bank's lending and deposit activity occurs in that AA.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. §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

*[Discuss the institution's CRA performance. The facts and data that support your conclusions must be included in the PE. The PE should clearly demonstrate how the lending and the community development tests, and their performance criteria, as well as relevant information from the performance context, were considered in order to rate the institution.]*

*In order to make it easier for the reader to find the support for the rating, describe the bank's performance using the following headings, and address all the performance criteria.]*

### LENDING TEST

[Conclusion]

#### Loan-to-Deposit Ratio

LNB's net loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and credit needs of its AAs. The bank's quarterly average net LTD ratio from December 31, 2013 to June 30, 2017 is 62 percent, which is a slight improvement over the evaluation period. During the evaluation period, the net LTD ratio ranged from a low of 59 percent to a high of 67 percent, depicting an increasing trend.

LNB's average loan-to-deposit ratio is reasonable when compared to similarly situated banks in or near the assessment area(s) with consideration given to lending opportunities available, as well as demographic and economic factors present in the AAs. The average LTD ratio of similarly situated banks over the evaluation period is 73 percent. Similarly situated banks include those with total assets between \$535 million and \$1.4 billion located in or adjacent to counties in the bank's AAs.

The following table depicts quarterly average LTD ratios for each similarly situated bank:

Loan-to-Deposit Ratios		
Institution	Total Assets (\$000s)	Average Loan-to-Deposit Ratio (%)
<b>Lubbock National Bank</b>	<b>1,059,061</b>	<b>62.33</b>
First Bank & Trust	930,154	84.29
Firstcapital Bank of Texas	1,406,997	75.51
American Bank of Commerce	903,252	70.48
First United Bank	1,210,807	74.75
The First National Bank of Bastrop	534,598	60.39

*Source: Institution Reports of Condition from December 2013 to June 2017*

### Lending in Assessment Area

LNB extends a majority of its primary loan product within the AAs. Commercial loans represent the predominate type of loan product, comprising approximately 81 percent of total loans and include commercial real estate, construction and typical commercial and industrial credits. To assess performance for this criteria, we sampled 86 commercial loans that originated between January 1, 2014 and August 31, 2017. Our analysis determined that 77 percent of the number and 70 percent of the dollar amount of loans in the sample originated within the bank’s combined AAs. The following tables depict results for the combined sample and for each individual AA:

<b>Lending in Combined AAs</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	66	76.74	20	23.26	86	25,179	69.97	10,806	30.03	35,985
Totals	66	76.74	20	23.26	86	25,179	69.97	10,806	30.03	35,985

Source: Sample of small business loans used for CRA performance analysis.

<b>Lending in Lubbock County AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	22	81.48	5	18.52	27	2,467	59.43	1,684	40.57	4,150
Totals	22	81.48	5	18.52	27	2,467	59.43	1,684	40.57	4,150

Source: Sample of small business loans used for CRA performance analysis.

<b>Lending in Austin/Round Rock AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	24	80.00	6	20.00	30	17,575	75.96	5,563	24.04	23,138
Totals	24	80.00	6	20.00	30	17,575	75.96	5,563	24.04	23,138

Source: Sample of small business loans used for CRA performance analysis.

<b>Lending in Bryan/College Station AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	20	68.97	9	31.03	29	5,137	59.07	3,560	40.93	8,697
Totals	20	68.97	9	31.03	29	5,137	59.07	3,560	40.93	8,697

Source: Sample of small business loans used for CRA performance analysis.

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

The distribution of LNB’s commercial loan portfolio reflects an overall reasonable penetration among businesses of different sizes within the bank’s AAs. The distribution of loans to businesses of different sizes was reasonable for each AA.

Lubbock County, TX AA

The distribution of loans made to businesses of different sizes reflects a reasonable penetration. Based on 2016 Business Demographic Data, there are 20,383 businesses operating within the Lubbock County, TX AA, of which 84 percent reported revenues less than or equal to \$1 million. Of the 22 commercial loans to borrowers within the AA, 64 percent of the number of loans and 58 percent of the dollar amount of loans were made to businesses reporting annual gross revenues less than or equal to \$1 million, exhibiting reasonable dispersion. The following table shows an analysis of those loans:

<b>Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	83.59	5.02	11.39	100%
% of Bank Loans in AA by #	63.64	22.73	13.63	100%
% of Bank Loans in AA by \$	58.00	16.78	25.22	100%

Source: Dun and Bradstreet data; 2010 US Census; Sample of small business loans used for CRA performance analysis

Austin-Round Rock, TX MSA AA

The distribution of loans to businesses reflects a reasonable penetration among businesses of different sizes. Based on 2016 Business Demographic Data, there are 148,749 businesses operating within the Austin-Round Rock, TX MSA AA, of which 87 percent reported revenues less than or equal to \$1 million. Of the 24 sampled commercial loans determined to be within the AA, 58 percent of the number of loans and 61 percent of the dollar amount of loans were made to businesses reporting annual gross revenues less than or equal to \$1 million. The following table shows an analysis of those loans. Analysis indicates the bank is originating loans with reasonable dispersion among smaller businesses in a market with a large number of other of financial institutions in this MSA AA. LNB commercial loans to borrowers in this AA are typically larger in amounts.

<b>Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	86.99	3.62	9.39	100%
% of Bank Loans in AA by #	58.33	25.00	16.67	100%
% of Bank Loans in AA by \$	61.20	12.56	26.24	100%

Source: Dun and Bradstreet data; 2010 US Census; Sample of small business loans used for CRA performance analysis.

Bryan-College Station, TX MSA AA



The distribution of loans to businesses of different sizes reflects reasonable penetration. Based on 2016 Business Demographic Data, there are 12,471 businesses operating within the Bryan-College Station MSA AA, of which 80 percent reported revenues less than or equal to \$1 million. Of the 20 sampled commercial loans determined to be in the AA, 60 percent of the number and 72 percent of the dollar amount of loans were made to businesses reporting annual gross revenues less than or equal to \$1 million, exhibiting reasonable dispersion. The following table shows an analysis of those loans. Commercial loans in this MSA are typically larger in amount.

<b>Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	79.95	5.02	15.03	100%
% of Bank Loans in AA by #	60.00	35.00	5.00	100%
% of Bank Loans in AA by \$	71.59	27.35	1.06	100%

*Source: Dun and Bradstreet data; 2010 US Census. Sample of small business loans used for CRA performance analysis.*

### **Geographic Distribution of Loans**

The geographic distribution of loans is reasonable, with loans to small businesses reflecting reasonable dispersion throughout each of the bank’s AAs.

#### Lubbock County, TX AA

The geographic distribution of loans to small businesses reflects reasonable dispersion. Over the evaluation period, LNB’s lending in low-income (five percent) census tracts is only slightly below the demographic data for AA businesses in low-income census tracts (six percent). Lending in moderate-income census tracts (18 percent) exceeds the demographic (15 percent), reflecting an overall reasonable dispersion. The following table summarizes the distribution of loans in this AA:

<b>Geographic Distribution of Loans to Businesses in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
	5.65	4.55	14.51	18.18	38.47	40.91	41.29	36.36

*Source: Dun & Bradstreet data; 2010 US Census. Sample of small business loans used for CRA performance analysis.*

#### Austin-Round Rock, TX MSA AA

The geographic distribution of loans to small businesses reflects reasonable dispersion. Over the evaluation period, LNB’s lending in low-income (eight percent) census tracts exceeds the demographic data for AA businesses in low-income census tracts (six percent). Lending in moderate-income census tracts (17 percent) is only slightly below

the demographic (18 percent). This reflects an overall reasonable dispersion. The following table summarizes the distribution of loans in this MSA AA:

<b>Geographic Distribution of Loans to Businesses in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
	6.26	8.33	17.91	16.67	30.64	25.00	45.10	50.00

Source: Dun & Bradstreet data; 2010 US Census. Sample of small business loans used for CRA performance analysis.

Bryan-College Station, TX MSA AA

The geographic distribution of loans to small businesses reflects reasonable dispersion. Over the evaluation period, LNB’s lending in low-income (15 percent) census tracts exceeds the demographic data for AA businesses in low-income census tracts (eight percent). Lending in moderate-income census tracts (15 percent) is below the demographic (20 percent), reflecting an overall reasonable dispersion when taking into consideration those originated in low-income census tracts. The following table summarizes the distribution of loans in this MSA AA:

<b>Geographic Distribution of Loans to Businesses in AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
	8.07	15.00	20.42	15.00	39.04	15.00	32.18	55.00

Source: Dun & Bradstreet data; 2010 US Census; Sample of small business loans used for CRA performance analysis.

**Responses to Complaints**

There have been no complaints related to the bank’s CRA performance during this evaluation period, which has a neutral effect on the bank’s overall performance.

**COMMUNITY DEVELOPMENT TEST**

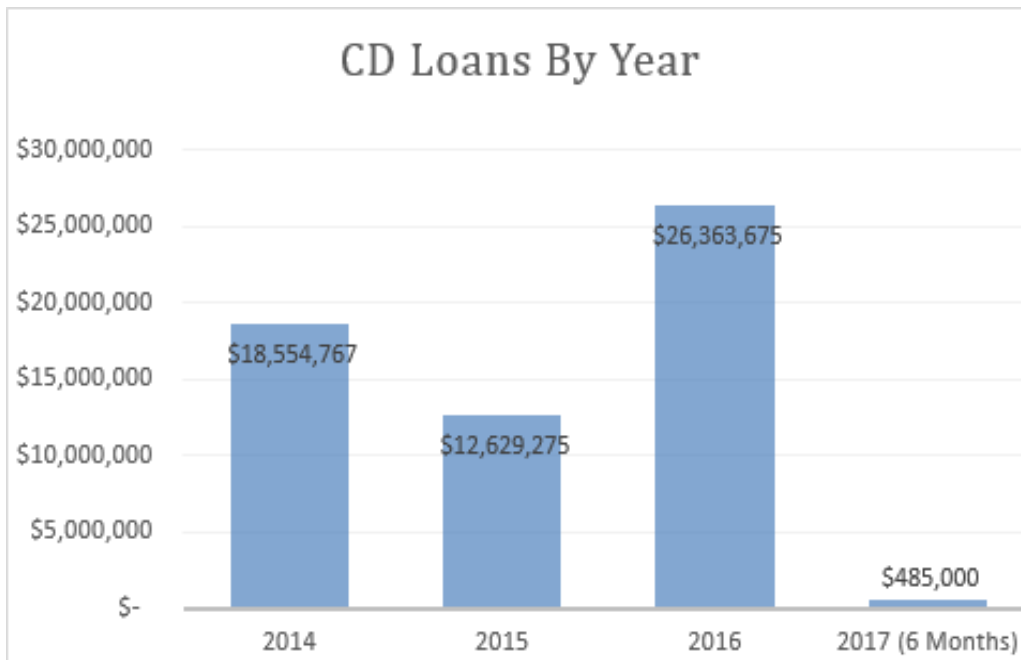
LNB’s performance under the Community Development (CD) Test is rated Satisfactory. LNB shows reasonable responsiveness to CD needs in its AAs through CD loans, qualified investments and through CD services.

**Number and Amount of Community Development Loans**

LNB reflects adequate responsiveness to the CD needs of its assessment areas in regards to CD Lending. The bank originated 42 qualifying CD loans within the assessment areas, totaling \$58 million. This represents 57 percent of tier 1 capital and

10 percent of the total loan portfolio. The majority of qualifying loans by dollar amount originated from the Austin-Round Rock MSA AA, and the majority of qualifying loans by number are from the Lubbock AA.

The evaluation period includes all of 2014 through August 2017. During the evaluation period, there has been a focused effort on funding loans for community development purposes. There was a sharp increase in 2016 as new opportunities arose to finance the construction or renovation of commercial business/retail centers, hotels, and apartment units in designated revitalization areas. To date, there was less CD lending activity during 2017 as efforts were focused on other areas. The table below shows the volume of qualified loan amounts for each year:



**Number and Amount of Qualified Investments**

The bank's responsiveness to Community Development needs of the AA through CD investments is satisfactory.

During the evaluation period, LNB made a total of \$6.4 million in qualified investments, grants, and donations within their assessment areas. This accounts for 6 percent of Tier-1 capital as of June 30, 2017. Compared to the previous CRA exam, this is a slight decrease from \$7.2 million in qualified investments which accounted for 10 percent of Tier-1 capital. The level of investment reflects an adequate responsiveness to the community's needs.

Qualified investments in the Lubbock County AA included 53 contributions totaling \$455 thousand. Qualified investments in the Austin MSA AA included 12 contributions

totaling \$5.9 million. Qualified investments in the Bryan-College Station MSA AA included 20 contributions totaling \$39 thousand. In addition, the bank had one out of AA contribution totaling \$5 thousand that was qualified after determining that LNB met the needs of the assessment areas. All funds are specifically targeted to benefit low- or moderate-income individuals or support organizations whose primary focus is revitalizing areas within the AAs.

Of the total qualified investments made by the bank, a significant portion of this was in FNMA and GNMA bonds targeting affordable housing for low- and moderate-income (LMI) individuals. These mortgage-backed securities accounted for \$5.8 million of total qualified investments/donations. Specifically, these purchases assisted low- and moderate-income individuals and families with down payments and closing costs for eligible first-time homebuyers. Upon review of the mortgages that make up the MBS pool, the majority of borrowers are below 80 percent of the Median Family Income, or MFI (we disqualified from consideration those above 80 percent of the MFI). The majority of investments directly benefitted the Austin MSA, as these MBS are more widely available and have a high dollar volume. Despite this, LNB showed to be active in making a number of smaller dollar volume investments/grants in the Lubbock AA.

Other significant investments/donations/grants made during the evaluation period include \$297 thousand investment in Pharos Capital Partners, a Small Business Investment Company that promotes economic development by providing financing to small businesses within the Lubbock MSA; \$50 thousand to the Ronald McDonald House; and \$30 thousand to the Lubbock United Way.

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

The level of CD services reflects an adequate responsiveness to CD needs in each of the three AAs. During the evaluation period, numerous bank employees provided varied financial services to 29 different qualified CD organizations and a total of 2,894 hours. The provision of CD services is heavily concentrated in the Lubbock MSA AA (2,341 hours), consistent with the number of employees in this AA. CD services provided in the College Station-Bryan MSA AA (333 hours) and the Austin-Round Rock MSA AA (220 hours) are lower, but also consistent with the number of employees in these AAs.

LNB officers and employees provide technical assistance through participation on finance or audit committees of local organizations, providing services to LMI individuals in all AAs. Examples include:

#### *Coalition of Community Assistance Volunteers (CCAV)*

LNB employees volunteered over 1,500 hours during 2014-2017 preparing free income tax returns for LMI individuals through the Volunteer Income Tax Assistance program. CCAV and the IRS train volunteers to prepare income tax returns according to IRS guidelines.

Habitat for Humanity

LNB employees in all AAs have volunteered an aggregated 545 hours in various capacities to Habitat for Humanity throughout the evaluation period. Employees used their financial expertise to help select and provide financial literacy to potential applicants.

**Responsiveness to Community Development Needs**

LNB demonstrates satisfactory responsiveness to CD needs in all three AAs, particularly through commercial lending efforts to originate CD loans related to AA revitalization/stabilization needs.



