



Office of the  
Comptroller of the Currency  
Washington, DC 20219

# INTERMEDIATE SMALL BANK

## PUBLIC DISCLOSURE

February 25, 2019

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Community National Bank  
Charter Number 18054  
401 West Texas Avenue, Suite 100  
Midland, TX 79701

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, 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**

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

Community National Bank (CNB) has a satisfactory record of meeting community credit needs. The ratings are based on the following:

- CNB's quarterly net loan-to-deposit (LTD) ratio is more than reasonable averaging 73.5 percent during the evaluation period.
- CNB originated a majority of its loans by number (86 percent) and dollar amount (82 percent) to borrowers located within the assessment areas (AAs).
- CNB's loan portfolio reflects an overall reasonable penetration among businesses of different sizes and home mortgage borrowers of different income levels.
- The geographic distribution of loans to businesses and home mortgage loans reflects an overall reasonable dispersion given the bank's performance context, business strategy, and locations.
- CNB's community development (CD) performance demonstrates adequate responsiveness to the needs of its AAs through CD loans, qualified investments, and CD 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

CNB is an intrastate institution headquartered in Midland, Texas in the Permian Basin area of the state. The bank is a wholly-owned subsidiary of Midland Bancshares, Inc., a one-bank holding company located in Midland, TX. CNB reported total assets of \$1.4 billion on December 31, 2018.

CNB offers a wide range of traditional loan and deposit products. CNB identified two AAs: Midland MSA AA and Odessa MSA AA. The Midland MSA AA includes Midland and Martin counties while the Odessa MSA AA includes Ector County. Within these two AAs, CNB has 10 full-service branches, 9 ATMs, and 2 loan production offices (Dallas/Fort Worth and Odessa), both of which opened in 2017. CNB's Midland MSA AA contains 9 of the bank's 10 offices, including the main office in downtown Midland, an office in Stanton, and 8 of the 9 ATMs. CNB's Odessa MSA AA contains 1 of the bank's 10 offices and 1 ATM. All branches offer full-service banking. CNB has not opened any branches since 2015. One branch in Odessa, located in a middle-income census tract, at 619 N. Grant was closed in 2017 due to profitability concerns. Lobby and drive-up hours are set by each location to meet the needs of the local area. CNB provides 24-hour access to personal and business online banking through its website [www.cnbt.net](http://www.cnbt.net).

As of December 31, 2018, net loans totaled \$823 million and represented 60 percent of total assets and 67 percent of total deposits. The following table reflects the composition of the loan portfolio as of December 31, 2018.

Loan Portfolio Composition		
Loan Category	\$000s	%
Commercial Real Estate and Commercial	628,279	76.3
Residential Real Estate	82,847	10.1
Agricultural Real Estate and Production	31,900	3.9
Consumer	12,332	1.5
Other	67,786	8.2
<b>TOTAL</b>	<b>\$823,144</b>	<b>100.0</b>

*Source: December 31, 2018 Report of Condition*

CNB's business strategy is completely correlated to the energy industry. CNB is primarily a commercial lender and loan volumes are significantly concentrated in large commercial and commercial real estate loans. Business lending includes commercial real estate, inventory, equipment purchase, operating, and oil and gas investments. CNB's energy lending is driven by strong activity in the Permian Basin. Secondly, CNB also originates 15-, 20-, and 30-year mortgages with conventional, FHA, and VA financing.

No legal impediments or other factors hinder CNB's ability to provide credit to its AAs. The bank was rated "Satisfactory" at its last CRA evaluation dated August 10, 2015.

# Scope of the Evaluation

## Evaluation Period/Products Evaluated

The CRA evaluation period is January 1, 2016 through December 31, 2018. We evaluated CNB using Intermediate Small Bank criteria, which include Lending and Community Development Tests. The evaluation period for the CD Test is August 10, 2015 through December 31, 2018.

The bank has two primary products, commercial loans and home mortgage loans, in that order of importance. To evaluate commercial lending, we reviewed a random sample of loans originated during the evaluation period. For home mortgage lending, we reviewed the complete Home Mortgage Disclosure Act (HMDA) loan application registers (LARs) from 2016-2018. Due to changes in census tract income level designations effective in 2017, loans originated in 2016 are evaluated against 2010 census data, while loans originated in 2017-2018 are combined and evaluated against 2015 census data.

## Data Integrity

In September 2018, we performed a data integrity review of HMDA-reported residential loans and community development (CD) activities. We reviewed processes to ensure accurate collection and reporting of HMDA loans which allowed us to conclude that publicly reported data is accurate and reliable. We also qualified several CD loans, investments, and services. Finally, we obtained financial and geographic information for the commercial loan sample directly from the bank's loan files.

## Selection of Areas for Full-Scope Review

CNB has two assessment areas, the Midland MSA AA and the Odessa MSA AA. Given the bank's primary operations are in the Midland AA, along with a more significant deposit market share and more lending activity, the Midland AA will receive a full-scope review while the Odessa AA will receive a limited-scope review.

## Ratings

The bank's overall rating is based primarily on the Midland MSA AA because it is receiving a full-scope review.

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

Pursuant to 12 C.F.R. §25.28(c), in determining a national bank's 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

CNB's performance under the Lending Test is rated Satisfactory.

### Loan-to-Deposit (LTD) Ratio

CNB's net LTD ratio is reasonable given the bank's size, financial condition, local competition, and AAs credit needs. This determination is based on the bank's 73.5 percent quarterly average net LTD ratio for the 15 quarters from June 30, 2015 through December 31, 2018. The quarterly average net LTD ratios of six similarly-situated banks with total assets less than \$1.5 billion, located within one or both of the bank's AAs, was 71 percent, ranging from 50 to 91 percent.

Institution	Total Assets (\$000s) as of 12/31/18	Quarterly Average Net LTD Ratio
<b>Community National Bank</b>	<b>1,351,767</b>	<b>73.46</b>
Bank of Texas	375,768	91.23
FirstCapital Bank of Texas, N.A.	1,122,516	80.46
Security Bank	871,904	65.84
Southwest Bank	417,655	78.03
West Texas National Bank	1,430,581	49.95
West Texas State Bank	417,489	60.95

Source: Reports of Condition from June 2015 to December 2018

### Lending in Assessment Areas

A majority of CNB's loans were originated to borrowers within the AAs. We reviewed 45 commercial and all 902 home mortgage loans originated or purchased from 2016-2018. About 89 percent by number of loans and 82 percent by dollar amount were made within the combined AAs. Results by loan category are illustrated in the following table.

Lending in the Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total \$ (000s)
	#	%	#	%		\$	%	\$	%	
Commercial	40	88.9	5	11.1	45	11,363	82.4	2,423	17.6	13,786
Home Mortgage	758	88.4	99	11.6	857	163,711	82.2	35,431	17.8	199,142
Totals	798	<b>88.5</b>	104	11.5	902	175,074	<b>82.2</b>	37,854	17.8	212,928

Sources: 2016-2018 HMDA LARs and sample of commercial loans.

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

Loans to businesses of different sizes and borrowers of different income levels reflects an overall reasonable distribution. The distribution of commercial loans in the Midland MSA AA reflects a reasonable distribution after considering performance context. The distribution of home mortgage loans to borrowers of different income levels is reasonable. Performance in the Odessa MSA AA is not inconsistent with that in the Midland MSA AA.

Midland MSA AA

CNB has a reasonable distribution of commercial loans among businesses of different sizes in the Midland MSA AA, after considering performance context. Twenty-five percent of the number of sampled businesses in 2016, and 26 percent in 2017-2018, were to businesses with revenues greater than \$1 million, far below the demographic. In both 2016 and 2017, 80 percent of businesses reported revenues less than or equal to \$1 million. We were unable to obtain revenue information for 15 percent (2016) and 13 percent (2017-2018) by number, which may have affected sampling results. A significant portion of CNB's commercial loans in the Midland AA are to companies involved in oil and gas-related activities. The local oil and gas economy rebounded from the 2016 downturn and is strong. Loans to energy-related borrowers are typically to larger businesses for higher dollar amounts, as shown in the following tables.

<b>Borrower Distribution of Loans to Businesses in Midland MSA AA (2016)</b>				
Business Revenues (Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80.0	7.6	12.5	100
% of Bank Loans in AA by #	<b>25.0</b>	60.0	15.0	100
% of Bank Loans in AA by \$	14.9	71.4	13.6	100

Source: Loan sample; Dunn and Bradstreet data.

<b>Borrower Distribution of Loans to Businesses in Midland MSA AA (2017-2018)</b>				
Business Revenues (Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80.0	7.6	12.5	100
% of Bank Loans in AA by #	<b>26.1</b>	60.9	13.0	100
% of Bank Loans in AA by \$	14.9	72.3	12.8	100

Source: Loan sample; Dunn and Bradstreet data.

Given the limited sampling results above, we completed additional analysis of all CNB commercial loan originations during the evaluation period. About 28 percent of all commercial loan originations were for less than \$100 thousand, and about 82 percent were for less than \$500 thousand. This provides support for CNB's willingness to lend to businesses of different sizes, using loan amount as a general proxy for business size.

<b>2016-2018 Commercial Loan Distribution by Amount</b>		
Loan Amount	# of Loans	% of # of Loans
<\$100,000	326	<b>27.6%</b>
\$100,001 - \$250,000	261	<b>30.5%</b>
\$250,001 - \$500,000	280	<b>23.7%</b>
\$500,001 - \$750,000	81	6.9%
\$750,001 - \$1,000,000	46	3.8%
>\$1,000,000	89	7.5%

Source: Loan trial balance.

The overall distribution of home mortgage loans is reasonable among borrowers of different income levels, given performance context. Home mortgage lending in 2016 for moderate-income borrowers reflects excellent distribution at 19 percent, which exceeds the level of moderate-income families at 17 percent. Similarly, home mortgage lending in 2017-2018 for moderate-income borrowers reflects excellent distribution at 20 percent, which exceeds the level of moderate-income families at 18 percent.

Home mortgage lending in 2016 and 2017-2018 to low-income borrowers is 11 percent and 8 percent, respectively, which is below the demographic of 22 percent. However, this is reasonable given the median home price is high and rapidly increasing at \$175 thousand. In addition, 12 percent and 9 percent of families for the respective evaluation periods are below the poverty level. Further, CNB underwrites mortgages to government-sponsored agency (FNMA, GNMA, FHLMC, etc.) standards, which have strict requirements for mortgage applicants. For these collective reasons, low-income families in the AA experience greater difficulty qualifying for home mortgage loans.

<b>Borrower Distribution of Residential Real Estate Loans in Midland MSA AA (2016)</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	22.1	<b>11.0</b>	16.8	<b>18.7</b>	20.1	<b>21.9</b>	40.9	<b>42.6</b>

Sources: 2010 U.S. Census; 2016 HMDA-LAR; 5.8% income unknown

<b>Borrower Distribution of Residential Real Estate Loans in Midland MSA AA (2017-2018)</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	21.9	<b>8.2</b>	17.5	<b>20.3</b>	20.2	<b>20.3</b>	40.4	<b>41.3</b>

Source: 2015 ACS Census; 2017-18 HMDA-LAR; 9.9% income unknown

### Odessa MSA AA

<b>Borrower Distribution of Loans to Businesses in Odessa MSA AA (2016)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	78.8	7.5	13.7	100
% of Bank Loans in AA by #	<b>66.7</b>	25.0	8.3	100
% of Bank Loans in AA by \$	25.7	72.9	1.4	100

Source: Loan sample; Dunn and Bradstreet data.

<b>Borrower Distribution of Loans to Businesses in Odessa MSA AA (2017-2018)</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	78.4	7.4	14.2	100
% of Bank Loans in AA by #	<b>55.0</b>	20.0	25.0	100
% of Bank Loans in AA by \$	16.9	80.0	3.1	100

Source: Loan sample; Dunn and Bradstreet data.

Borrower Distribution of Residential Real Estate Loans in Odessa MSA AA (2016)								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	24.4	<b>2.0</b>	15.7	<b>14.0</b>	19.2	<b>28.0</b>	40.7	<b>48.0</b>

Source: 2010 U.S. Census; 2016 HMDA-LAR ; 8% income unknown

Borrower Distribution of Residential Real Estate Loans in Odessa MSA AA (2017-2018)								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Mortgage	21.8	<b>5.0</b>	17.3	<b>23.7</b>	20.5	<b>33.1</b>	40.4	<b>30.2</b>

Source: 2015 ACS Census; 2017-2018 HMDA-LAR; 8% income unknown

## Geographic Distribution of Loans

CNB exhibits reasonable distribution of commercial and home mortgage loans in the Midland MSA AA, given the bank's business strategy and location. Overall performance in the Odessa MSA AA is not inconsistent with the Midland MSA AA. During the evaluation period, there were 2 low-income census tracts of 57 total in the combined AAs, containing few businesses and residences.

### Commercial Loans

CNB's overall geographic distribution of commercial loans reflects reasonable dispersion. For 2016 and 2017-2018, CNB's lending in low-income census tracts is reasonable overall with 2016 at 0 percent below the demographic of 2 percent and 2017-2018 at 5 percent exceeding the demographic of 2 percent. 2016 lending in moderate-income census tracts is reasonable in the Midland MSA AA at 15 percent, near the demographic of 26 percent. 2017-2018 lending in moderate-income census tracts reflects a poor distribution in Midland at 0 percent, which is significantly below the demographic of 24 percent. The following tables show the distribution of commercial loans in the AA for 2016 and 2017-2018.

Geographic Distribution of Loans to Businesses in Midland and Odessa MSA AAs (2016)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
AA	% 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
Midland MSA	2.4	<b>0.0</b>	26.1	<b>15.0</b>	41.0	<b>60.0</b>	30.0	<b>25.0</b>
Odessa MSA	0.0	<b>0.0</b>	17.3	<b>8.3</b>	45.4	<b>33.4</b>	37.3	<b>58.3</b>

Source: 2016 D&B Data; Due to rounding, totals may not equal 100.0

<b>Geographic Distribution of Loans to Businesses in Midland and Odessa MSA AAs (2017-2018)</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
AA	% 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
Midland MSA	1.5	<b>4.6</b>	23.8	<b>0.0</b>	37.5	<b>63.6</b>	36.2	<b>31.8</b>
Odessa MSA	1.4	<b>0.0</b>	22.6	<b>20.0</b>	34.6	<b>30.0</b>	41.4	<b>50.0</b>

Source: 2017 D&B Data; Due to rounding, totals may not equal 100.0

### Home Mortgage Loans

CNB's geographic distribution of home mortgage loans reflects reasonable dispersion. 2016 lending within the Midland MSA AA at 5 percent equals the demographic for low-income tracts and is near the 17 percent demographic for moderate-income tracts at 11 percent. For 2017-2018, lending in the Midland MSA AA is also reasonable, near the 3 percent demographic for low-income tracts at 1 percent and below the 13 percent demographic for moderate-income tracts at 9 percent. In 2017, one moderate-income census tract changed to low-income while another transitioned to upper-income. Lending in moderate-income tracts declined during that period. The following tables show the distribution of home mortgage loans.

<b>Geographic Distribution of Residential Real Estate Loans in Midland and Odessa MSA AAs (2016)</b>								
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
Midland MSA	4.5	<b>4.5</b>	17.1	<b>11.0</b>	48.0	<b>38.7</b>	30.4	<b>45.8</b>
Odessa MSA	0.0	<b>0.0</b>	21.9	<b>12.0</b>	48.0	<b>34.0</b>	30.1	<b>54.0</b>

Source: 2010 U.S Census; 2016 HMDA Aggregate Data; Due to rounding, totals may not equal 100.0

<b>Geographic Distribution of Residential Real Estate Loans in Midland and Odessa MSA AAs (2017-2018)</b>								
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
Midland MSA	2.7	<b>1.4</b>	12.9	<b>8.5</b>	43.7	<b>37.4</b>	40.6	<b>50.2</b>
Odessa MSA	1.6	<b>1.4</b>	21.4	<b>7.9</b>	42.7	<b>27.3</b>	34.3	<b>62.6</b>

Source: 2015 U.S Census; 2017-18 HMDA Aggregate Data; Due to rounding, totals may not equal 100.0

### **Responses to Complaints**

There have been no CRA-related complaints filed during the evaluation period, which has a neutral effect on the bank's overall performance.

## **COMMUNITY DEVELOPMENT TEST**

CNB's performance under the Community Development (CD) Test is rated Satisfactory. CNB demonstrates adequate responsiveness to the CD needs of the Midland MSA AA through CD loans, qualified investments, and CD services. Performance in the Odessa MSA AA is similar.

### **Number and Amount of Community Development Loans**

The level of CD lending reflects satisfactory responsiveness to CD needs of the AAs. CNB originated 53 qualifying CD loans in the amount of \$8.7 million during the evaluation period, with all loans benefitting the AAs.

CNB originated 46 loans totaling \$7.3 million in the Midland MSA AA and 7 loans totaling \$1.4 million in the Odessa MSA AA. Nearly all of these loans were for interim construction of affordable housing in low- and moderate-income tracts. Due to the housing shortage and inflated housing costs, affordable housing provided by these loans had an average home value of less than \$225,000, which is affordable given the AA's median family income and associated mortgage qualification calculations assuming LMI income levels. In addition, CNB made CD loans to promote economic development, provide services to LMI individuals, and revitalize or stabilize LMI census tracts.

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

The level of qualified investments reflects an adequate responsiveness to CD needs in the AAs. CNB made 70 qualified investments, totaling \$6.4 million. The bank purchased 4 municipal bonds totaling \$2 million, made 18 certificates of deposit in minority-owned financial institutions, community development financial institutions (CDFI), and low-income credit unions totaling \$4.2 million, and made 49 donations totaling \$184 thousand dollars to qualifying CD organizations. The municipal bonds were all Texas school districts in which a majority of the students receive free or reduced lunch; one bond was for a school within the AAs. All of the 17 organizations that received donations are within the AAs and a majority of the organizations provide services to LMI individuals.

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

The level of CD services reflects an excellent responsiveness to CD needs in the AAs with respect to the number of contributed hours, the number of employees actively involved, and the number and diversity of the type of non-profit organizations they serve. CNB performed a total of 3,064 community development service hours for 13 different organizations. About 84 percent of the hours were performed in the Midland MSA AA, with 16 percent in the Odessa MSA AA. A majority of the hours were for the IRS-sponsored Volunteer Income Tax Assistance (VITA) program. Other services included providing financial literacy and serving on boards and committees of organizations that provide services to LMI individuals.

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

CNB demonstrates adequate responsiveness to CD needs in its AAs. The CD loans, investments, and services all reflect adequate responsiveness.

## Appendix A: Scope of Examination

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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”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD loans): 1/1/2016 to 12/31/18 Investment/Service Tests and CD Loans: 8/10/2015 to 12/31/2018	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Community National Bank Midland, Texas	Commercial Loans, Home Mortgage Loans	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Midland MSA Odessa MSA	Full-Scope Limited-Scope	Midland and Martin Counties Ector County

## Appendix B: Community Profiles for Full-Scope Areas

### Midland, TX MSA AA

Demographic Information for Full-Scope Area: Midland MSA 2017-2018						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	29	4	17	48	28	3
Population by Geography	156,542	3	17	47	33	0
Owner-Occupied Housing by Geography	36,680	3	13	44	40	0
Businesses by Geography	13,600	2	23	37	37	1
Farms by Geography	390	1	13	47	39	0
Family Distribution by Income Level	37,873	22	18	20	40	0
Distribution of Low- and Moderate-Income Families throughout AA CTs	13,575	10	23	48	19	0
Median Family Income (MFI)	= \$71,186	Median Housing Value				= \$175,383
HUD Adjusted MFI for 2016	= \$82,297	Unemployment Rate				= 3.9%
Households Below the Poverty Level	= 6.6%					

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

Source: 2015 U.S. Census.

The Midland MSA AA is the bank's primary AA when considering the bank's overall operations, branch network, lending and deposit levels, and deposit market share. The AA meets the legal requirements as it consists of whole geographies and does not arbitrarily exclude any low- or moderate-income census tracts.

The Midland MSA AA is completely correlated to the energy industry and is home to some of the largest energy corporations/investment in the country. One of CNB's primary lending strategies is to finance the service and exploration/production companies operating in the Permian Basin. The city of Midland is in the middle of the 100-mile radius of the Permian Basin and is considered the center of the area's oil and gas industry. Due to the high level of external investment and economic activity from the oil and gas industry, Midland has experienced shortages in both labor and housing. Due to more lucrative profit margins, energy-related businesses can often pay higher wages, and often leave other local, non-energy related businesses in need of affordable labor. Over 90 percent of Texas' oil rigs operate out of the Permian Basin. As of December 31, 2018, the rig count was up 262 percent since the downturn's lowest counts in late April and early May of 2016. In 2018, WTI prices averaged \$67/barrel.

Economic conditions are stable and strong. Major employers in the AA include regional and national oil and gas production and service companies. Non-energy employers

include the Midland Independent School District, Midland Memorial Hospital and Medical Center, and Midland College. The strong economic conditions resulted in a low unemployment rate of 2.1 percent in December 2018. This is well below the state of Texas and the nation at 3.7 percent and 3.9 percent, respectively. These factors contributed to the rapid increases in median family income and housing prices for the AA during the evaluation period.

Competition within the AA is strong. Eighteen financial institutions have 46 offices in the AA. Wells Fargo, NA has the highest deposit market share at 19 percent, followed by Bank of America, NA with 15 percent. CNB has the third largest deposit market share, and the largest among the locally chartered institutions, at 14 percent.

An individual representing an economic development organization in Midland was interviewed for the purpose of determining a community profile, identifying community development opportunities, and understanding participation by local financial institutions. Economic conditions in Midland and surrounding communities are highly dependent upon oil and gas production, and are susceptible to volatility in the energy markets. Community credit needs include attracting diverse businesses and industries to stabilize the economy and adding affordable housing for existing and future employment growth. Local banks and other financial institutions are willing to assist as they are able, particularly with borrowers who struggle during low points in the cycle.