



LARGE BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 15, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lone Star National Bank
Charter Number 17611

206 West Ferguson
Pharr, TX 78577

Office of the Comptroller of the Currency

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

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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Overall CRA Rating

Institution’s CRA Rating: This institution is rated **Satisfactory**.

The following table indicates the performance level of **Lone Star National Bank** with respect to the Lending, Investment, and Service Tests:

Performance Levels	Lone Star National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Major factors that support this rating:

- Lending levels reflect adequate responsiveness to assessment area credit needs.
- The geographic distribution of small loans to businesses and residential mortgage loans reflects adequate penetration throughout the assessment areas.
- The distribution of borrowers reflects adequate penetration among customers of different income levels and businesses of different sizes.
- An adequate level of community development (CD) loans resulted in a positive impact on the Lending Test performance.
- An adequate level of qualified CD investments benefitted bank assessment areas.
- Delivery systems are accessible to geographies, businesses, and individuals of different income levels in the assessment areas.
- The bank provides an adequate level of 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 usually have between 2,500 and 8,000 persons, and 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 the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development.

Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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 do 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 applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include additional data on 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 ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development 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 Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county 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) and the Thrift Financial Reporting (TFR) 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 thousand 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

Lone Star National Bank (LSNB), an intrastate bank headquartered in Pharr, Texas, operates 28 full service branches and 43 automated teller machines (ATMs) in its assessment areas of Hidalgo County, Cameron County, Starr County, and Bexar County. Major cities include McAllen, Edinburg, and Mission in Hidalgo County; Brownsville and Harlingen in Cameron County; Roma and Rio Grande City in Starr County; and San Antonio in Bexar County.

LSNB is a wholly owned subsidiary of Lone Star National Bancshares – Texas, Inc., a one-bank holding company based in Pharr, Texas. At December 31, 2011, the holding company had total assets of \$2.2 billion. No activities of the holding company subsidiaries were included in the evaluation of the bank's CRA performance. LSNB's overall business strategy is to become the premier, independent community bank in South Texas by providing value-added sales and service and helping its communities grow.

At September 30, 2012, LSNB had \$2.1 billion in total assets with net loans of \$1.2 billion representing 57 percent of total assets. The loan portfolio included commercially related loans for development, construction, permanent financing, or other commercial and industrial purposes (61 percent), residential loans for construction or permanent financing (24 percent), other loans (7 percent), agriculturally related loans for production or secured by farmland (5 percent) and loans under credit card plans or for other consumer purposes (3 percent). Tier 1 Capital totaled \$228 million and resulted in a tier 1 Leverage Capital ratio of 10.86 percent of assets.

LSNB offers a full range of financial products and services with particular emphasis on loans for commercial purposes, residential development, and consumer purposes.

No legal, financial, or other factors hinder LSNB's ability to meet the credit needs of its assessment areas. We assigned a "Satisfactory" rating at the previous CRA examination of October 19, 2009.

Scope of the Evaluation

Evaluation Period/Products Evaluated

This Performance Evaluation assesses the bank's performance under the Lending, Investment, and Service Tests. The Lending Test included a review of residential mortgage loans subject to filing under the HMDA, small loans to businesses and farms subject to filing under the CRA, and community development (CD) loans. The Investment Test included a review of investments and donations that meet the definition of community development investments made in bank assessment areas. The Service Test included a review of retail and community development services provided in bank assessment areas.

Except for CD loans, the evaluation period for the Lending Test covered January 1, 2010 through December 31, 2011. For CD loans, the Investment Test, and the Service Test, the evaluation period covered October 19, 2009, the date of the last CRA evaluation, through October 16, 2012. We based conclusions related to CD loans and qualified investments on the number and dollar volume made during the evaluation period. We also considered level of innovation, complexity, responsiveness to community credit needs, and the degree to which private investors do not provide these instruments.

Data Integrity

In March 2012, we verified the accuracy of public lending data made available in accordance with HMDA and CRA loan data reporting requirements. Public data consists of home mortgage lending and small loans to businesses and farms. During the CRA examination, we reviewed non-public data management provided for CD loans, CD investments, and CD services to ensure it met regulatory definition for community development. Based on the verification work performed, we consider public lending data and non-public community development data accurate.

Selection of Areas for Full-Scope Review

We selected the Hidalgo County assessment area (AA) for a full-scope review because a substantial majority of bank activity occurs in this AA. We noted 70 percent of the loans, 71 percent of the deposits, and 61 percent of the locations originated in this AA.

We conducted limited-scope reviews in the three remaining AAs because bank activity occurring in these AAs represented a smaller portion of overall bank activity. We noted that 16 percent of loans, 17 percent of deposits and 14 percent of locations originated in the Cameron County AA. We noted that 12 percent of loans, 9 percent of deposits, and 11 percent of locations originated in the Starr County AA. Even though the bank added the Bexar County AA in January 2012, we included it in this evaluation because the bank opened two of four branches in San Antonio in 2010 and the other two in 2011. We noted only 2 percent of loans, 3 percent of deposits, and 14 percent of locations originated in Bexar County.

Please refer to Appendix A for more information.

Ratings

We based the rating primarily on the full-scope review of the Hidalgo County assessment area. Performance in this AA received the most weight in the overall analysis because a substantial majority of bank activity originated in this assessment area. Lending performance for loans to small businesses received the most weight in determining the Lending Test rating, followed by residential home purchase performance, and to a lesser extent, by residential home improvement performance. We did not consider analyses of lending performance for home refinance and small farm purposes meaningful because of the nominal number and dollar volume of these loans; therefore, they received less weight in determining the overall Lending Test rating.

Other

We reviewed recent housing and demographic information and community contacts conducted by the OCC in connection with other CRA examinations of banks operating in the same AAs to determine community credit needs in the AAs.

For this examination, we reviewed the community contacts to determine credit needs and opportunities for financial institutions to meet those needs. The contacts indicated community development opportunities exist in the full-scope AA, especially for affordable housing and small business financing. The comments received were positive, but indicated that even though the current national recession did not affect the local economic environment too severely, it did result in tighter credit underwriting standards making it difficult for individuals and businesses to qualify for loans.

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.

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions for Areas Receiving Full-Scope Reviews

LSNB's performance under the lending test is rated "high satisfactory". Based on the full-scope review, overall lending performance in the Hidalgo County AA is good.

Lending Activity

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's lending activity.

We selected small loans to businesses as a primary loan product to assess CRA performance since they represent 52 percent of total originations. We also selected home mortgage products as a primary loan product because these loans represent 47 percent of total originations. By purpose, home mortgage products include home purchase loans (57 percent), home improvement loans (35 percent), and home refinance loans (6 percent). Multi-family loans represent 2 percent of total home mortgage products and small loans to farms represent 2 percent of total loan originations.

Based on the FDIC's Summary of Deposits, Market Share Report as of June 30, 2012, LSNB had 13 percent of the deposit market share and ranked third in the Hidalgo County AA. Based on 2010 Peer Small Business data, LSNB had a market share of 9 percent and ranked third of 45 lenders who originate loans to small businesses. LSNB had a market share of 18 percent and ranked first out of 17 lenders who originate loans to small farms.

Based on 2010 Peer Mortgage Data, LSNB ranked sixth among 223 lenders of home mortgage products with an overall market share of 4.31 percent. By mortgage product, LSNB ranked fifth of 153 lenders for home purchase loans with a 5 percent market share, ranked first of 34 lenders for home improvement loans with a 21 percent market share and ranked twentieth of 164 lenders for home refinance loans with a 1 percent market share.

Distribution of Loans by Income Level of the Geography

Home Mortgage Loans

Refer to Tables 2, 3, 4 and 5 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

The geographic distribution of home purchase loans is poor. The percentage of home purchase loans in moderate-income geographies is lower than the percentage of owner-occupied housing units. LSNB's market share in moderate-income geographies exceeds the overall market share. The Hidalgo County AA does not include any low-income areas.

The geographic distribution of home improvement loans is good. The percentage of home improvement loans in moderate-income geographies is near to the percentage of owner-occupied housing units.

LSNB's market share in moderate-income geographies is somewhat lower than the overall market share. The Hidalgo County AA does not include any low-income areas.

We provided the Home Mortgage Refinance Loans and Multi-Family Loans tables for informational purposes only as analyses of these products by geographic income levels are not meaningful. These products represent 6 percent and 2 percent, respectively, of total loan originations. LSNB originated 57 refinance loans and 21 multi-family loans in all four of its AAs during the evaluation period, compared to 524 home purchase loans and 327 home improvement loans.

Small Loans to Businesses

Refer to Table 6 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

The geographic distribution of small loans to businesses in the Hidalgo County AA is adequate. The distribution of loans in moderate-income geographies is somewhat lower than the percentage of small businesses located in those areas. There are no low-income geographies in the Hidalgo County AA. LSNB's market share in moderate-income geographies is near to the overall market share.

Small Loans to Farms

Refer to Table 7 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to farms.

We provide the table for informational purposes only as a geographic distribution analysis of small loans to farms is not meaningful. This product represents two percent of total loan originations; LSNB originated 28 loans in the Hidalgo County AA and 17 loans in the AAs during the evaluation period. LSNB did not originate any small loans to farms in the Cameron County AA.

Lending Gap Analysis

We reviewed maps and reports detailing lending activity for residential loans and small loans to businesses that originated during the evaluation period and did not identify any unexplained conspicuous gaps in the geographic distribution of these loans.

Inside/Outside Ratio

On a bank-wide level, the distribution of loans inside the AAs is excellent. LSNB originated a substantial majority of loans, 98 percent of the number and 97 percent of the dollar volume, inside its AAs. The excellent distribution of loans originating inside the AAs factored positively in the overall analysis of lending performance.

Distribution of Loans by Income Level of the Borrower

Home Mortgage Loans

Refer to Tables 8, 9, and 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

The distribution of home purchase loans by borrower income level in the Hidalgo County AA is poor. While the percentage of loans to low-income borrowers is significantly lower than the percentage of low-income families in the AA, LSNB's market share for low-income borrowers exceeds its overall market share. The percentage of loans to moderate-income borrowers is lower than the percentage of moderate-income families in the AA. LSNB's market share for moderate-income borrowers is somewhat lower than the overall market share.

The high level of households (32 percent) below the poverty level, along with the HUD Adjusted Median Family Income of \$33,700 for 2011 and an average sales price of \$124 thousand in 2011, the unsubsidized purchase of a single-family residence might be beyond the financial means of many individuals designated low- or moderate-income.

The distribution of home improvement loans by borrower income level in the Hidalgo County AA is adequate. While the percentage of loans to low-income borrowers is lower than the percentage of low-income families in the AA, LSNB's market share for low-income borrowers significantly exceeds its overall market share. The percentage of loans to moderate-income borrowers is near to the percentage of moderate-income families in the AA. LSNB's market share for moderate-income borrowers exceeds the overall market share.

We provided the Home Mortgage Refinance Loans and Multi-Family Loans tables for informational purposes only as analyses of these products by borrower income levels are not meaningful. These products represent 6 percent and 2 percent, respectively, of total loan originations. LSNB originated 57 refinance loans and 21 multi-family loans in all four of its AAs during the evaluation period, compared to 524 home purchase loans and 327 home improvement loans.

Small Loans to Businesses

Refer to Table 11 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

The distribution of loans to businesses with annual revenues of \$1 million or less is adequate in the Hidalgo County AA. LSNB's percentage of small loans to businesses with annual revenues of \$1 million or less is somewhat lower than the percentage of businesses with annual revenues of \$1 million or less in the AA. LSNB's market share to businesses with annual revenues of \$1 million or less exceeds the overall market share. We noted that 75 percent of the loans to small businesses originated at amounts of \$100,000 or less.

Small Loans to Farms

Refer to Table 12 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

We provide the table for informational purposes only as a borrower distribution analysis of small loans to farms is not meaningful. This product represents two percent of total loan originations; LSNB originated 28 loans in the Hidalgo County AA and 17 loans in the AAs during the evaluation period. LSNB did not originate any small loans to farms in the Cameron County AA. We noted that 93 percent of the loans to small farms originated at amounts of \$100,000 or less.

Community Development Lending

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's level of community development lending. This table includes all CD loans, including multifamily loans that also qualify as CD loans. In addition, Table 5 includes geographic lending data on all multi-family loans, including those that also qualify as CD loans. Table 5 does not separately list CD loans, however.

LSNB originated an adequate level of CD loans in its AAs, which positively affected the overall Lending Test conclusion. LSNB originated 18 CD loans totaling \$25 million during the evaluation period that met the CD eligibility definition.

Of the 18 eligible CD loans, 14 loans totaling \$16.7 million originated in the Hidalgo County AA, two loans totaling \$5.4 million originated in the Bexar County AA, and two loans totaling \$2.9 million originated in the Starr County AA. While not complex or innovative, the loans financed community development activities that included economic development, community services, and affordable housing.

Examples of CD Lending:

- LSNB originated one loan totaling \$10 million in the Hidalgo County AA that provided for economic development.
- LSNB originated four loans totaling \$8.1 million to finance activities that provide community services to low- and moderate-income individuals and/or geographies. Two loans totaling \$5.4 million originated in the Bexar County AA; one loan totaling \$1.4 million originated in the Starr County AA; and one loan totaling \$1.3 million originated in the Hidalgo County AA.
- LSNB originated 13 loans totaling \$7.2 million that provided permanent financing for the purchase and/or renovation of individual and multi-family units with affordable housing costs for low- and moderate-income individuals. Twelve loans totaling \$5.7 million originated in the Hidalgo County AA and one loan totaling \$1.5 million originated in the Starr County AA.

Product Innovation and Flexibility

Product innovation and flexibility had a neutral impact on the Lending Test conclusion because LSNB does not offer any innovative products. However, LSNB does provide equity investments to a local organization that offers flexible and affordable loan programs targeted to low- and moderate-income families for home purchase financing. Using funds that LSNB provided, the organization originated eight home purchase loans totaling \$754 thousand.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's performance under the lending test in the Cameron County AA and in the Starr County AA is not inconsistent with the bank's overall "High Satisfactory" performance under the lending test. In the Bexar County AA, the bank's performance is weaker than the overall rating; however, the bank's limited presence in this assessment area mitigates the weaker performance. Aggressive competition in the Bexar County AA means LSNB must compete with

significantly larger national and regional financial institutions. Refer to Tables 1 through 13 in appendix C for the facts and data that support these conclusions.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

LSNB's performance under the investment test is rated "low satisfactory". Based on the full-scope review, performance in the Hidalgo County AA is good.

Refer to Table 14 in appendix C for the facts and data used to evaluate the bank's level of qualified investments.

LSNB has an adequate level of qualified investments that meet the needs of its AAs. The dollar volume of qualified investments totaled \$21.1 million and represented 9.25 percent of tier 1 capital. Qualifying investments have as their primary purpose community development, as defined in the Community Reinvestment Act regulation, and include investments, deposits, membership shares, donations or grants. Although LSNB's qualifying investments are not complex or innovative, they do demonstrate its responsiveness to meeting identified credit and community development needs in the assessment areas.

Some examples of qualified investments:

- LSNB made six investments totaling \$9.4 million in the Hidalgo County AA. These community service investments helped local school districts construct and/or remodel school buildings located in moderate-income geographies and helped districts provide programs and benefits for children of low-income and moderate-income families.
- LSNB made a \$7.6 million investment in the Hidalgo County AA for the construction of a produce terminal in the City of Pharr. The investment promotes economic development, brings infrastructure to the area, utilizes a tax-reinvestment zone, and provides job opportunities for low- and moderate-income individuals.
- LSNB made four investments totaling \$1.6 million in a CRA Qualified Investment Fund allocated to Bexar County for financing multifamily housing units (two apartment complexes) that make rental housing available for low- and moderate-income families and for financing mortgages to low- and moderate-income individuals. The investments address affordable housing needs in the assessment area.
- LSNB made a \$630 thousand investment in the Starr County AA that helped the Rio Grande City ISD provide programs and benefits for children of low-income and moderate-income families.

LSNB also made \$181 thousand in donations/contributions to a number of organizations that provide services for low- and moderate-income individuals in its assessment areas. In addition, the bank made two donations that benefitted areas outside its own assessment areas; a \$5,000 donation to the Salvation Army that was used to provide food, water, and medical supplies to victims of the Haitian earthquake and a \$500 donation made to Club Rotario Matamoros Industrial to help purchase hearing aids for low-income children in Matamoros, Mexico.

Conclusions for Area Receiving Limited-Scope Reviews

Based on limited-scope reviews, LSNB's performance under the investment test in the Bexar County AA and in the Starr County AA is not inconsistent with the overall "low satisfactory" performance under the investment test. In the Cameron County AA, the bank's performance is weaker than the overall performance because the volume of investments in the AA is low given the percentage of bank deposits associated with the AA. The weaker performance adversely affected the overall Investment Test conclusion. Refer to Table 14 in appendix C for the facts and data that support these conclusions.

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

LSNB's performance under the Service Test is rated "high satisfactory". Based on full-scope reviews, performance in the Hidalgo County AA is good.

Retail Banking Services

Refer to Table 15 in appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

Delivery systems are accessible to geographies and individuals of different income levels in the Hidalgo County AA. The percentage of branches in moderate-income census tracts is somewhat lower than the percentage of population that resides in moderate-income tracts; however, three of the remaining 14 branches are located in census tracts adjacent to or in close proximity to moderate-income tracts and improve overall accessibility to residents in the moderate-income tracts. The Hidalgo County AA does not include any low-income census tracts.

Reasonable bank hours exist throughout the assessment areas; branches operate from 9 AM to 4 PM Monday through Thursday and until 6 PM on Fridays. All branches are open from 9 AM to Noon on Saturdays. Motor banks operate from 7:30 AM to 6:30 PM, Monday through Friday and from 8 AM to 1 PM on Saturdays.

LSNB's record of opening and closing branches during the evaluation period improved the accessibility of its delivery systems, particularly to low- and moderate-income geographies and individuals. Five of eight branches that LSNB opened were located in moderate-income census tracts.

Alternative delivery systems provide reasonable access to bank products and services. Alternative delivery systems include automated teller machines, 24-hour telephone banking services, Internet banking, mobile banking services, and bank by mail. Customers can access information regarding their checking, savings, and loan balances, transfer funds, print statements and account histories, view their imaged checks, pay bills, and communicate with the bank via e-mail through the bank's website (www.lonestarnationalbank.com).

Community Development Services

LSNB provided an adequate level of CD services in its assessment areas during the evaluation period. Overall activities reflect LSNB's continued commitment to its assessment areas. Several bank officers provide financial technical assistance through leadership roles of board members, directors, or committee chairpersons to organizations whose primary purpose is community development. Examples of these organizations, include, but are not limited to, Hidalgo Economic Development Corporation, Affordable Homes of South Texas, Boy and Girls Clubs, and Food Bank of the Rio Grande Valley.

In 2011, LSNB began a financial literacy program that entailed visiting elementary schools to discuss banking and bank careers. The program evolved and now includes visits to high schools, libraries, and community centers and age-relevant information from the ABA's Personal Finance Training Manual. Since the program began, LSNB has made 33 presentations to over 8,000 students; LSNB made 14 of the 33 presentations in schools located in low- or moderate-income geographies. In 2012, The University of Texas – Pan American approached LSNB and requested it provide financial literacy training in conjunction with the Upward Bound Program, a federally funded program that serves first generation low-income students.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, performance in the Bexar County AA, the Cameron County AA, and the Starr County AA is not inconsistent with the LSNB's overall "high satisfactory" performance under the Service Test. Refer to Table 15 in appendix C for the facts and data that support these conclusions.

Appendix A: Scope of Examination

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

Time Period Reviewed	Lending Test (excludes CD Loans): 01/01/2010 to 12/31/2011 Investment and Service Tests and CD Loans: 10/20/2009 to 10/15/2012	
Financial Institution	Products Reviewed	
Lone Star National Bank (LSNB), Pharr, Texas	Home Mortgage, Small Business/Small Farm, Community Development Loans, Community Development Investments, and Community Development Services	
Affiliate(s)	Affiliate Relationship	Products Reviewed
No affiliate activity reviewed.	N/A	N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Hidalgo County AA Bexar County AA Cameron County AA Starr County AA	Full-Scope Limited-Scope Limited Scope Limited Scope	Includes entire McAllen-Edinburg-Mission MSA Does not include entire San Antonio MSA Includes entire Brownsville-Harlingen-San Benito MSA Includes entire Starr County Non-MSA

Appendix B: Market Profile for Full-Scope Area

Hidalgo County Assessment Area

Demographic Information for Full Scope Area: Hidalgo County AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	80	0.00	28.75	47.50	23.75	0.00
Population by Geography	569,463	0.00	29.73	48.29	21.98	0.00
Owner-Occupied Housing by Geography	114,570	0.00	27.56	48.45	23.99	0.00
Business by Geography	51,767	0.00	19.10	40.58	40.32	0.00
Farms by Geography	847	0.00	16.41	46.52	37.07	0.00
Family Distribution by Income Level	133,186	23.48	16.86	17.67	41.98	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	53,733	0.00	37.97	48.96	13.07	0.00
Median Family Income		25,988	Median Housing Value		49,916	
HUD Adjusted Median Family Income for 2011		33,700	Unemployment Rate (2000 US Census)		4.33%	
Households Below Poverty Level		32%				

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

Source: 2000 US Census and 2011 HUD updated MFI

The Hidalgo County AA includes the McAllen-Edinburg-Mission MSA and encompasses the entire county. The defined AA meets the requirements of the CRA and does not arbitrarily exclude any low- or moderate-income tracts. (Hidalgo County does not include any census tracts designated low-income.) Major cities include McAllen, Edinburg, Mission, Pharr, and Weslaco. According to the Real Estate Center at Texas A&M University, the average sales price of a home in 2011 was \$124,200.

LSNB's main competition includes other large community banks such as Inter National Bank of McAllen and First National Bank of Edinburg and several smaller community banks. Branches of multinational and regional banking companies, such as Compass Bank, Wells Fargo, International Bank of Commerce, Frost Bank, and JP Morgan Chase Bank, also provide competition. At June 30, 2012, LSNB's deposits in the Hidalgo County AA represent 71 percent of total bank deposits. Of the total HMDA and CRA loans reported during the evaluation period, 61 percent of the number and 64 percent of the dollars originated in this AA. LSNB operates 28 full service branches that offer a full-range of banking products and services with particular emphasis on loans for affordable housing, small business loans, and loans for consumer purposes.

Economic conditions reflect positive trends with strong population growth and low cost of living. However, high poverty rates, rising business costs, and extremely low per capita income continues to impact economic growth. Leading industries include medical services/hospitals, local school districts and colleges, and HEB Grocery Stores.

Market data on HMDA lending indicated a lower than average demand for purchase money mortgage loans in LSNB's trade area. The high level of families living below the poverty level, coupled with high

unemployment rate and average sales price of a home, means many cannot qualify for home mortgage loans. At December 31, 2011, the MSA reported an annual unemployment rate of 11.3 percent, which is higher than the state average of 7.4 percent and the national average of 8.5 percent.

A good level of CD opportunities exists in this AA. Community contacts identified credit needs that included small business financing, affordable housing, and small consumer loans. Several government and non-profit organizations, such as the McAllen Housing Authority, Mercedes Housing Authority, and McAllen Affordable Homes, Inc., help provide home ownership counseling, construction, and financing of affordable homes in Hidalgo County. The MSA also includes several areas identified, primarily for affordable housing, as Federally-designated Empowerment Zones.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. See Interagency Q&As __.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not

available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.

- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.
- Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

Table 14. Qualified Investments - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As __.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

Table 1. Lending Volume

LENDING VOLUME												
Geography: TEXAS												
Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011												
Assessment Area (2011):	% of Rated Area Loans (#) in MA/AA [*]	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans ^{**}		Total Reported Loans		% of Rated Area Deposits in MA/AA ^{***}
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
Full Review:												
Hidalgo County AA	70.01	564	69,505	965	100,616	28	1,257	14	16,721	1,571	188,099	71.27
Limited Review:												
Bexar County AA	2.14	23	8,502	23	3,141	0	0	2	5,377	48	17,020	3.09
Cameron County AA	15.60	172	24,556	174	16,348	4	653	0	0	350	41,557	16.65
Starr County AA	12.25	170	5,691	90	4,154	13	423	2	2,931	275	13,199	8.99

^{*} Loan Data as of December 31, 2011. Rated area refers to either state or multi-state MA rating area.

^{**} The evaluation period for Community Development Loans is from October 19, 2009 to October 15, 2012.

^{***} Deposit Data as of October 15, 2012. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

Table 2. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE															Geography: TEXAS					Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011				
Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography [*]													
	#	% of Total ^{**}	% Owner Occ Units ^{***}	% BANK Loans ^{****}	% Owner Occ Units ^{***}	% BANK Loans	% Owner Occ Units ^{***}	% BANK Loans	% Owner Occ Units ^{***}	% BANK Loans	Over all	Low	Mod	Mid	Upp									
Full Review:																								
Hidalgo County AA	368	70.23	0.00	0.00	27.56	13.32	48.45	38.32	23.99	48.37	4.75	0.00	6.63	4.26	4.75									
Limited Review:																								
Bexar County AA	17	3.24	1.94	5.88	34.52	0.00	26.83	23.53	36.71	70.59	0.03	0.00	0.00	0.04	0.04									
Cameron County AA	128	24.43	0.87	2.34	21.06	10.16	43.90	14.84	34.18	72.66	2.35	1.05	3.83	1.08	3.11									
Starr County AA	11	2.10	60.31	36.36	39.69	63.64	0.00	0.00	0.00	0.00	6.86	3.45	11.36	0.00	0.00									

^{*} Based on 2010 Peer Mortgage Data (USPR)

^{**} Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

^{***} Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

^{****} Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

Table 3. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT															Geography: TEXAS					Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011				
Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography [*]													
	#	% of Total ^{**}	% Owner Occ Units ^{***}	% BANK Loans ^{****}	% Owner Occ Units ^{***}	% BANK Loans	% Owner Occ Units ^{***}	% BANK Loans	% Owner Occ Units ^{***}	% BANK Loans	Overall	Low	Mod	Mid	Upp									
Full Review:																								
Hidalgo County AA	148	45.26	0.00	0.00	27.56	22.97	48.45	43.92	23.99	33.11	21.56	0.00	16.42	21.20	25.00									
Limited Review:																								
Bexar County AA	1	0.31	1.94	0.00	34.52	0.00	26.83	100.00	36.71	0.00	0.05	0.00	0.00	0.19	0.00									
Cameron County AA	25	7.65	0.87	4.00	21.06	20.00	43.90	28.00	34.18	48.00	5.48	0.00	6.52	3.37	7.41									
Starr County AA	153	46.79	60.31	57.52	39.69	42.48	0.00	0.00	0.00	0.00	86.14	87.27	84.78	0.00	0.00									

^{*} Based on 2010 Peer Mortgage Data (USPR)

^{**} Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

^{***} Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

^{****} Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

Table 4. Geographic Distribution of Home Mortgage Refinance Loans

Geographic Distribution: HOME MORTGAGE REFINANCE															Geography: TEXAS					Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011				
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography [*]													
	#	% of Total ^{**}	% Owner Occ Units ^{***}	% BANK Loans ^{****}	% Owner Occ Units ^{***}	% BANK Loans	% Owner Occ Units ^{***}	% BANK Loans	% Owner Occ Units ^{***}	% BANK Loans	Overall	Low	Mod	Mid	Upp									
Full Review:																								
Hidalgo County AA	37	64.91	0.00	0.00	27.56	16.22	48.45	51.35	23.99	32.43	0.89	0.00	1.57	1.11	0.55									
Limited Review:																								
Bexar County AA	3	5.26	1.94	0.00	34.52	0.00	26.83	0.00	36.71	100.00	0.00	0.00	0.00	0.00	0.01									
Cameron County AA	15	26.32	0.87	0.00	21.06	6.67	43.90	46.67	34.18	46.67	0.51	0.00	1.18	0.74	0.34									
Starr County AA	2	3.51	60.31	100.00	39.69	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00									

^{*} Based on 2010 Peer Mortgage Data (USPR)

^{**} Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

^{***} Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

^{****} Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

Table 5. Geographic Distribution of Multifamily Loans

Geographic Distribution: MULTIFAMILY															Geography: TEXAS					Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011				
Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*													
	#	% of Total**	% of MF Units***	% BANK Loans****	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp							
Full Review:																								
Hidalgo County AA	11	52.38	0.00	0.00	11.56	0.00	31.77	36.36	56.67	63.64	11.90	0.00	0.00	18.75	10.00									
Limited Review:																								
Bexar County AA	2	9.52	1.89	0.00	36.43	0.00	38.94	50.00	22.74	50.00	0.00	0.00	0.00	0.00	0.00									
Cameron County AA	4	19.05	2.93	0.00	15.31	50.00	19.84	25.00	61.92	25.00	11.11	0.00	25.00	25.00	0.00									
Starr County AA	4	19.05	24.75	25.00	75.25	75.00	0.00	0.00	0.00	0.00	100.00	100.00	100.00	0.00	0.00									

* Based on 2010 Peer Mortgage Data (USPR)

** Multi-family loans originated and purchased in the MA/AA as a percentage of all multi-family loans originated and purchased in the rated area.

*** Percentage of Multi Family Units is the number of multi family units in a particular geography divided by the number of multifamily housing units in the area based on 2000 Census information.

**** Multifamily loan distribution includes Home Purchases, Home Improvement and Refinances.

Table 6. Geographic Distribution of Small Loans to Businesses

Geographic Distribution: SMALL LOANS TO BUSINESSES															Geography: TEXAS		Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011				
Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ¹										
	#	% of Total ^{**}	% of Businesses ^{***}	% BANK Loans	% of Businesses ^{***}	% BANK Loans	% of Businesses ^{***}	% BANK Loans	% of Businesses ^{***}	% BANK Loans	Overall	Low	Mod	Mid	Upp						
Full Review:																					
Hidalgo County AA	965	77.14	0.00	0.00	19.10	13.06	40.58	32.33	40.32	54.61	8.85	0.00	7.48	8.69	10.50						
Limited Review:																					
Bexar County AA	22	1.76	1.66	0.00	27.08	0.00	26.68	9.09	44.34	90.91	0.06	0.00	0.00	0.02	0.10						
Cameron County AA	174	13.91	2.78	6.32	21.94	9.20	34.70	32.76	40.58	51.72	3.74	8.54	1.85	4.28	4.57						
Starr County AA	90	7.19	52.09	62.22	47.91	37.78	0.00	0.00	0.00	0.00	20.74	33.33	12.82	0.00	0.00						

¹ Based on 2010 Peer Small Business Data -- US and PR

^{**} Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

^{***} Source Data - Dun and Bradstreet (2011).

Table 7. Geographic Distribution of Small Loans to Farms

Geographic Distribution: SMALL LOANS TO FARMS															Geography: TEXAS		Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011												
Assessment Area:	Total Small Farm Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ¹																		
	#	% of Total ²	% of Farms ³	% BANK Loans	% of Farms ³	% BANK Loans	% of Farms ³	% BANK Loans	% of Farms ³	% BANK Loans	Overall	Low	Mod	Mid	Upp														
Full Review:																													
Hidalgo County AA	28	62.22	0.00	0.00	16.41	21.43	46.52	50.00	37.07	28.57	17.65	0.00	5.88	24.39	22.58														
Limited Review:																													
Bexar County AA	0	0.00	1.02	0.00	23.83	0.00	24.62	0.00	50.22	0.00	0.00	0.00	0.00	0.00	0.00														
Cameron County AA	4	8.89	1.09	0.00	8.21	0.00	54.20	75.00	36.50	25.00	3.08	0.00	0.00	6.67	0.00														
Starr County AA	13	28.89	47.73	46.15	52.27	53.85	0.00	0.00	0.00	0.00	57.89	100.00	42.86	0.00	0.00														

¹ Based on 2010 Peer Small Business Data -- US and PR

² Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

³ Source Data - Dun and Bradstreet (2011).

Table 8. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE															Geography: TEXAS					Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011				
Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share [*]													
	#	% of Total ^{**}	% Families [*]	% BANK Loans ^{****}	% Families ¹	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	Overall	Low	Mod	Mid	Upp									
Full Review:																								
Hidalgo County AA	368	70.23	23.48	0.91	16.86	4.53	17.67	9.67	41.98	84.89	4.74	6.12	3.11	2.79	5.34									
Limited Review:																								
Bexar County AA	17	3.24	22.01	0.00	18.14	6.25	20.22	6.25	39.63	87.50	0.04	0.00	0.02	0.00	0.07									
Cameron County AA	128	24.43	23.75	0.85	16.04	6.78	17.82	11.02	42.40	81.36	2.49	0.00	1.83	1.39	2.95									
Starr County AA	11	2.10	51.01	0.00	19.87	18.18	13.68	18.18	15.45	63.64	7.14	0.00	5.00	0.00	13.04									

^{*} Based on 2010 Peer Mortgage Data (USPR)

^{**} Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

^{***} Percentage of Families is based on the 2000 Census information.

^{****} As a percentage of loans with borrower income information available. No information was available for 9.2% of loans originated and purchased by bank.

¹ Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

Table 9. Borrower Distribution of Home Improvement Loans

Borrower Distribution: HOME IMPROVEMENT															Geography: TEXAS					Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011				
Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share ¹													
	#	% of Total ²	% Families ³	% BANK Loans ⁴	% Families ²	% BANK Loans ⁴	% Families ³	% BANK Loans ⁴	% Families ³	% BANK Loans ⁴	Overall	Low	Mod	Mid	Upp									
Full Review:																								
Hidalgo County AA	148	45.26	23.48	7.79	16.86	15.58	17.67	23.38	41.98	53.25	12.62	25.00	15.22	13.89	10.61									
Limited Review:																								
Bexar County AA	1	0.31	22.01	100.00	18.14	0.00	20.22	0.00	39.63	0.00	0.05	0.55	0.00	0.00	0.00									
Cameron County AA	25	7.65	23.75	7.69	16.04	0.00	17.82	23.08	42.40	69.23	1.92	0.00	0.00	2.33	2.50									
Starr County AA	153	46.79	51.01	21.74	19.87	28.26	13.68	28.26	15.45	21.74	64.10	40.00	70.00	72.73	61.54									

¹ Based on 2010 Peer Mortgage Data (USPR)

² Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

³ Percentage of Families is based on the 2000 Census information.

⁴ As a percentage of loans with borrower income information available. No information was available for 58.1% of loans originated and purchased by bank.

² Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

Table 10. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE		Geography: TEXAS					Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011					Market Share [*]				
Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall	Low	Mod	Mid	Upp	
	#	% of Total ^{**}	% Families ^{***}	% BANK Loans ^{****}	% Families ³	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}	% Families ^{***}	% BANK Loans ^{****}						
Full Review:																
Hidalgo County AA	37	64.91	23.48	0.00	16.86	6.67	17.67	13.33	41.98	80.00	0.97	0.00	2.17	1.53	0.86	
Limited Review:																
Bexar County AA	3	5.26	22.01	0.00	18.14	0.00	20.22	0.00	39.63	100.00	0.01	0.00	0.00	0.00	0.01	
Cameron County AA	15	26.32	23.75	0.00	16.04	0.00	17.82	7.14	42.40	92.86	0.62	0.00	0.00	0.00	0.71	
Starr County AA	2	3.51	51.01	0.00	19.87	0.00	13.68	0.00	15.45	100.00	0.00	0.00	0.00	0.00	0.00	

^{*} Based on 2010 Peer Mortgage Data (USPR)

^{**} Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

^{***} Percentage of Families is based on the 2000 Census information.

^{****} As a percentage of loans with borrower income information available. No information was available for 15.8% of loans originated and purchased by bank.

³ Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

Table 11. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES									
Geography: TEXAS									
Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011									
Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share [*]	
	#	% of Total ^{**}	% of Businesses ^{***}	% BANK Loans ^{****}	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
Full Review:									
Hidalgo County AA	965	77.08	68.17	47.05	74.82	15.34	9.84	8.85	11.64
Limited Review:									
Bexar County AA	23	1.84	66.86	43.48	65.22	17.39	17.39	0.06	0.05
Cameron County AA	174	13.90	67.57	37.36	72.41	16.67	10.92	3.74	3.34
Starr County AA	90	7.19	66.00	23.33	92.22	4.44	3.33	20.74	16.22

^{*} Based on 2010 Peer Small Business Data -- US and PR

^{**} Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

^{***} Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2011).

^{****} Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 44.41% of small loans to businesses originated and purchased by the bank.

Table 12. Borrower Distribution of Small Loans to Farms

Borrower Distribution: SMALL LOANS TO FARMS		Geography: TEXAS			Evaluation Period: JANUARY 1, 2010 TO DECEMBER 31, 2011				
Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share ¹	
	#	% of Total ²	% of Farms ³	% BANK Loans ⁴	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$500,000	All	Rev\$ 1 Million or Less
Full Review:									
Hidalgo County AA	28	62.22	93.51	35.71	92.86	3.57	3.57	17.65	13.56
Limited Review:									
Bexar County AA	0	0.00	97.44	0.00	0.00	0.00	0.00	0.00	0.00
Cameron County AA	4	8.89	97.08	50.00	50.00	25.00	25.00	3.08	3.92
Starr County AA	13	28.89	95.45	38.46	100.00	0.00	0.00	57.89	45.45

¹ Based on 2010 Peer Small Business Data -- US and PR

² Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

³ Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B - 2011).

⁴ Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 57.78% of small loans to farms originated and purchased by the bank.

Table 14. Qualified Investments

QUALIFIED INVESTMENTS									
Geography: TEXAS									
Evaluation Period: JANUARY OCTOBER 19, 2009 TO OCTOBER 15, 2012									
Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
Full Review:									
Hidalgo County AA	0	0	72	18,830	72	18,830	89.41	0	0
Limited Review:									
Bexar County AA	0	0	8	1,582	8	1,582	7.51	0	0
Cameron County AA	0	0	7	7	7	7	0.03	0	0
Starr County AA	0	0	16	641	16	641	3.04	0	0

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

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

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS																	
Geography: TEXAS																	
Evaluation Period: OCTOBER 19, 2009 TO OCTOBER 15, 2012																	
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings						Population			
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full Review:																	
Hidalgo County AA	71.27	17	60.71	0.00	17.65	29.41	52.94	3	2	0	2	-1	0	0.00	29.73	48.29	21.98
Limited Review:																	
Bexar County AA	3.09	4	14.29	0.00	50.00	50.00	0.00	4	0	0	2	2	0	3.01	40.97	27.68	28.33
Cameron County AA	16.65	4	14.29	0.00	0.00	50.00	50.00	0	0	0	0	0	0	2.26	25.87	42.69	29.18
Starr County AA	8.99	3	10.71	33.33	66.67	0.00	0.00	1	0	0	1	0	0	60.07	39.93	0.00	0.00

Distribution of Branch and ATM Delivery System

Distribution of Branch and ATM Delivery System																	
Geography: TEXAS																	
Evaluation Period: OCTOBER 19, 2009 TO OCTOBER 15, 2012																	
MA/Assessment Area:	Deposits	Branches						ATMs						Population			
	% of Total Bank Deposits	# of Bank Branches	% of Total Bank Branches	Location of Branches by Income of Geographies (%)				# of Bank ATMs	% of Total Bank ATMs	Location of ATMs by Income of Geographies				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full Review:																	
Hidalgo County AA	71.27	17	60.71	0	18	29	53	27	62.79	0	5	11	11	0.00	29.73	48.29	21.98
Limited Review:																	
Bexar County AA	3.09	4	14.29	0	50	50	0	3	6.98	0	2	1	0	3.01	40.97	27.68	28.33
Cameron County AA	16.65	4	14.29	0	0	50	50	7	16.28	1	2	2	2	2.26	25.87	42.69	29.18
Starr County AA	8.99	3	10.71	33	67	0	0	6	13.95	2	4	0	0	60.07	39.93	0.00	0.00