



PUBLIC DISCLOSURE

October 17, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texas National Bank
Charter Number 22807

400 East Broadway
Sweetwater, TX 79556

Office of the Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289, Suite 108
Lubbock, TX 79424-1319

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

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

- Texas National Bank (TNB) has a reasonable quarterly average net loan-to-deposit ratio of 29.38 percent during the evaluation period.
- TNB originated a majority of its loans by number (79 percent) and dollar volume (90) to businesses and individuals located within the assessment area (AA).
- TNB's loan portfolio reflects an excellent penetration among businesses of different sizes and a reasonable penetration among individuals of various income levels.
- The overall geographic distribution of loans reflects reasonable dispersion given the bank's performance context, business strategy, and locations.

SCOPE OF EXAMINATION

We evaluated TNB under the small bank performance standards, which include five performance criteria: the loan-to-deposit ratio, lending in the AA, lending to borrowers of different incomes and to businesses of different sizes, geographic distribution of loans, and responses to CRA-related complaints.

To evaluate TNB's lending performance, a random sample of loans was selected based on the bank's primary loan types. Primary loan types are those products that have been originated at the highest percentage by number and/or dollar volume of loans. During this evaluation period, primary products consisted of commercial and consumer loans, with more heavy weighting to commercial loans. To assess performance, we reviewed 29 commercial and 29 consumer loans originated between January 1, 2014 and September 30, 2016 in the Nolan County AA. The Taylor County AA was formed in March 2014, and is excluded from this review.

DESCRIPTION OF INSTITUTION

TNB is a \$138 million community bank headquartered in Sweetwater, Texas, about 40 miles west of Abilene. TNB is a wholly owned subsidiary of Mesa Financial Corporation, a single-bank holding company. TNB is an intrastate bank with its main office located in Sweetwater, Texas. During the evaluation period, TNB purchased a small bank in Tuscola, Texas and converted it to a branch in March 2014.

The bank provides traditional banking services including a variety of traditional loan and deposit accounts. Bank lobby and drive-through services are provided Monday through Saturday. TNB also offers basic online banking services at www.tnbnetbank.com.

As of June 30, 2016, net loans and leases comprised 23.6 percent of total assets. The bank's primary loan products include commercial (by dollar volume) and consumer loans (by number). The following table shows the composition of the loan portfolio.

Outstanding Loans as of September 30, 2016		
<i>Loan Type</i>	<i>\$(000)</i>	<i>%</i>
Commercial and Commercial Real Estate	\$14,852	46%
Consumer	\$2,056	6%
Residential Real Estate (1-4 Family)	\$5,577	17%
Agricultural and Farmland	\$10,055	31%
Total	\$32,540	100%

Source: Call Report dated September 30, 2016

The bank's business strategy is to serve commercial, consumer, agricultural, and real estate customers in Nolan and Taylor Counties. The bank received a Satisfactory rating at its April 13, 2010 CRA evaluation. TNB has no legal or financial circumstances that would impede the bank's ability to help meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

TNB has established two AAs, both of which meet regulatory requirements and do not arbitrarily exclude any low- or moderate-income areas.

The Nolan County AA includes the Sweetwater main bank, motor branch, and ATM. There are five census tracts in the Nolan County AA. One is moderate-income, two are middle-income, and two are upper-income. The 2016 HUD adjusted median family income is \$52,800. Nolan County has a population of 15,216. About 19 percent of households are below the poverty level. Unemployment is about 5.3 percent, comparable to the state of Texas and the United States, both at 4.9 percent.

The Taylor County AA, which is not being evaluated, includes the new Tuscola branch. Taylor County is part of the Abilene, TX MSA. However, the bank limits its AA to one census tract that covers most of the southern, rural portion of the county. The size and location of the Tuscola branch do not reasonably allow for provision of services to the city of Abilene.

The Nolan County economy is based on wind energy production, manufacturing, and agriculture. Four of the 10 largest wind farms in the United States are located in Nolan County. In addition to the above industries, additional large employers include the Sweetwater Independent School District, Rolling Plains Hospital, and Wal-Mart.

Competition is strong for both deposits and loans. In addition to TNB, two other financial institutions operate within Nolan County. The June 30, 2016 FDIC Market Share Report shows that TNB ranks third with 29 percent of all deposits. In Taylor County, TNB ranks 13th among 15 financial institutions with deposit market share of only 1 percent. A large regional bank in Abilene dominates share in both markets.

We contacted a local organization to obtain a community profile and identify opportunities for community development participation by local institutions. Economic conditions are stable. Technical manufacturing and wind power industry jobs require highly-skilled labor, some of which comes from Abilene. Our contact did not identify any specific credit needs, and noted limited community development opportunities for local banks. However, area banks are very helpful with time and donations to community projects, as well as participation on development committees.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

TNB’s loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, local competition, and AA credit needs. This determination is based on the bank’s quarterly average net LTD ratio for 27 quarters from December 31, 2009 through June 30, 2016 of 29.38 percent. The average net LTD ratio of the only similarly situated bank located within the AA for the same period was comparable at 36 percent.

Loan-to-Deposit Ratios		
<i>Institution Name</i>	<i>Total Assets (000s)</i>	<i>Quarterly Average Net Loan-to-Deposit Ratio</i>
Texas National Bank	138,339	29.38
The Roscoe State Bank	152,129	36.00

Source: *Institution Reports of Condition from December 2009 to June 2016.*

Lending in Assessment Area

A majority of TNB’s loans, 79 percent by number and 90 percent by dollar amount, were extended to borrowers who live or operate their businesses inside the Nolan County AA. The breakdown by loan category is illustrated in the following table.

Lending in Nolan County AA										
<i>Loan Type</i>	<i>Number of Loans</i>					<i>Dollars of Loans (000s)</i>				
	<i>Inside</i>		<i>Outside</i>		<i>Total</i>	<i>Inside</i>		<i>Outside</i>		<i>Total</i>
	<i>#</i>	<i>%</i>	<i>#</i>	<i>%</i>		<i>\$</i>	<i>%</i>	<i>\$</i>	<i>%</i>	
Commercial	20	69	9	31	29	\$24,046	90	\$2,560	10	\$26,606
Consumer	26	90	3	10	29	\$275	97	\$9	3	\$284
Totals	46	79	12	21	58	\$24,321	90	\$2,569	10	\$26,890

Source: *Sample of loans used for CRA performance analysis.*

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

TNB's loan portfolio reflects an overall excellent penetration among businesses of different sizes and reasonable penetration among individuals of various income levels within the Nolan County AA. To perform our analysis, we reviewed revenue information for 20 commercial loans and 26 consumer loans originated in the AA during 2014, 2015, and year-to-date 2016.

The percentage of TNB commercial loans by number exceeds the ratio of AA businesses with gross annual revenues less than or equal to \$1 million. All sampled loans were to businesses with less than or equal to \$1 million in revenue. About 72 percent of AA businesses reported revenues less than or equal to \$1 million.

Borrower Distribution of Commercial Loans in Nolan County AA				
<i>Business Revenues (or Sales)</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>	<i>Unknown</i>	<i>Total</i>
% of AA Businesses	72.10	3.80	24.10	100%
% of Bank Loans in AA by #	100.00	0.00	-	100%
% of Bank Loans in AA by \$	100.00	0.00	-	100%

Source: Loan sample; 2015 Dunn and Bradstreet data

The percentage of TNB's consumer loans significantly exceeds the ratio of moderate-income households and is below the ratio of low-income households in the AA. TNB originated 27 percent of consumer loans by number to moderate-income households and 15 percent to low-income households, compared to the AA demographics of 16 percent moderate-income households and 26 percent low-income households. Weaker performance to low-income households likely results from a combination of the 19 percent poverty rate and strong performance in moderate-income households.

Borrower Distribution of Consumer Loans in Nolan County AA								
<i>Borrower Income Level</i>	<i>Low</i>		<i>Moderate</i>		<i>Middle</i>		<i>Upper</i>	
	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>	<i>% of AA Households</i>	<i>% of # of Loans</i>
Consumer Loans	26.49	15.00	16.12	27.00	18.40	23.00	38.99	35.00

Source: Loan sample; 2010 U.S Census data

Geographic Distribution of Loans

Overall, TNB's geographic distribution of loans reflects reasonable dispersion given the bank's performance context, business strategy, and locations. To perform our analysis, we reviewed location information for 20 commercial loans and 26 consumer loans originated in the Nolan County AA during 2014, 2015, and year-to-date 2016.

The percentage of TNB commercial loans by number in moderate-income tracts is slightly below the ratio of AA businesses in moderate-income tracts, which is reasonable. Twenty percent of commercial loans were originated in moderate-income tracts, compared to 26 percent of AA businesses located in moderate-income tracts.

Geographic Distribution of Business Loans in Nolan County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Businesses	0.00	0.00	26.20	20.00	39.00	50.00	34.80	30.00

Source: Loan sample; 2015 Dunn and Bradstreet Data

The percentage of TNB’s consumer loans by number is below the ratio of moderate-income tracts in the AA, reflecting less than reasonable dispersion. Our sample found that 19 percent of consumer loans are located in moderate-income tracts, compared to 27 percent of households located in moderate-income tracts.

Geographic Distribution of Consumer Loans in Nolan County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumers	0.00	0.00	27.18	19.23	31.79	26.92	41.04	53.85

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

Responses to Complaints

Neither the bank nor the OCC have received any CRA-related complaints during the evaluation period. This has a neutral effect on the bank’s CRA performance.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 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 AA, or by an affiliate whose loans have been considered as part of the bank’s lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.