



PUBLIC DISCLOSURE

February 13, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texas National Bank
Charter Number 11879

201 S. Texas Avenue
Mercedes, TX 78570

Office of the Comptroller of the Currency
San Antonio South Field Office
10001 Reunion Place, Suite 250
San Antonio, TX 78216

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

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

Texas National Bank (TNB) has a satisfactory record of meeting community credit needs. We based our conclusion on TNB's lending practices. We evaluated these practices through review of samples of the bank's primary loan products. The rating is based on the following findings:

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, and credit needs in the assessment area (AA). The ratio has averaged 89.26 percent since the last Community Reinvestment Act (CRA) examination.
- The bank made a substantial majority of the loans in our sample to borrowers within its AA both by number, 83.94 percent, and dollar volume, 80.77 percent.
- TNB has reasonable penetration to borrowers of various income levels and to businesses of different sizes.
- The geographic distribution of loans showed reasonable penetration in moderate-income geographies.

SCOPE OF EXAMINATION

We performed a small bank CRA examination of TNB using financial data as of December 31, 2016. The evaluation period was from July 5, 2011, the date of the prior CRA examination, to February 13, 2017. We reviewed the quarterly average LTD ratio for the 23 quarters in the evaluation period and analyzed lending performance for loans originated between January 1, 2014 and December 31, 2016. Our analysis of lending performance inside the identified assessment area, borrower income distribution, and geographical distribution was based on residential real estate loan origination data reported to comply with the Home Mortgage Disclosure Act (HMDA), 25 consumer loans, and 40 commercial loans. As identified during previous CRA examinations, residential real estate, consumer installment loans, and commercial loans are the bank's primary loan products. By dollar volume, residential real estate and commercial loans made up the majority of TNB's lending portfolio, 46 percent each. As such, additional weight was placed upon these two lending products while performing our evaluation. The following table demonstrates the bank's primary lending products (by number and dollar) during the evaluation period.

Loan Originations and Purchases During the Evaluation Period By Loan Type		
Loan Type	% by Dollar of Loans	% by Number of Loans
Residential Real Estate Loans	46%	32%
Commercial Loans	46%	31%
Consumer Installment Loans	3%	35%
Agricultural Loans	5%	2%
Total	100%	100%

Source: Internal bank reports.

DESCRIPTION OF INSTITUTION

TNB is a community bank located in Mercedes, Texas, fully owned by MNB Ventures, Inc., a one-bank holding company. In addition to the Mercedes location, TNB has three branches located in Edinburg, McAllen, and Weslaco. Each branch has a full-service automated teller machine (ATM) on its premises. Six additional limited-service ATMs are located off-site and serve as a means for customers to access their funds but do not accept deposits, three in Weslaco, one in Donna, one in San Juan, and one in San Benito.

As of December 31, 2016, TNB has total assets of \$230 million with total loans of \$158 million, which represent 69 percent of total assets and 89 percent of total deposits. TNB's lending focus centers in commercial, residential, and consumer loans. As shown in the following table, commercial loans comprise the majority of the loan portfolio, followed by residential real estate loans.

Loan Portfolio Composition as of December 31, 2016		
Loan Type	Volume (\$000)	% of Total Loans
Residential Real Estate Loans	63,333	40%
Commercial Loans	83,011	52%
Consumer Installment Loans	4,585	3%
Agricultural Loans	7,359	5%

The previous CRA Performance Evaluation, dated July 5, 2011, reflected a satisfactory rating. There are no legal or other impediments that limit the bank's ability to meet the community's credit needs.

DESCRIPTION OF ASSESSMENT AREA

The bank has designated Hidalgo County, Texas as its AA. Hidalgo County is located in the Rio Grande Valley in South Texas, and is designated as the McAllen-Edinburg-Mission Metropolitan Statistical Area (MSA) by the Census Bureau. Hidalgo County includes the cities of Donna, Edinburg, McAllen, Mercedes, Mission, Pharr, San Juan, and Weslaco, as well as a number of other small cities. The McAllen-Edinburg-Mission MSA encompasses approximately 1,582 square miles and has a 2015 population density of 521 residents per square mile.

As of the 2010 US Census, the McAllen-Edinburg-Mission MSA was ranked as the second fastest growing MSA in Texas by percent change in population. Its population was estimated by the Census Bureau to be 774,769 in 2010 and represented a 36 percent increase since the 2000 Census. Population growth has since slowed with 2015 Census reports estimating an 8.7 percent increase to 842,304. Unemployment as of December 2016 is currently high at 8 percent compared to the overall unemployment rate in Texas, which was 4.6 percent for the same period. Approximately 31 percent of persons living in Hidalgo County have income below the poverty level, compared to 16 percent for the state of Texas.

Major businesses in Hidalgo County include retail and wholesale trade, food processing, international shipping, tourism, mineral operations, and a diversified international base. Employment within the AA consists primarily of city governments, school districts, and both medical and banking centers. Major employers include the McAllen, Edinburg, Mission, and Pharr Independent School Districts, local city and county governments, regional medical centers, and the University of Texas Pan America.

Competition for lending in the AA is aggressive. Competitors are a variety of state and national banks that include several larger community banks. The AA also contains branches of much larger institutions, including International Bank of Commerce, Wells Fargo, JP Morgan Chase N.A., Compass, Frost National Bank, and Bank of America.

AA Income Composition by Families and Geographies								
Income Designation	Low-Income		Moderate-Income		Middle-Income		Upper Income	
	#	%	#	%	#	%	#	%
Families	43,087	25.27	26,467	15.52	28,593	16.77	72,356	42.44
Census Tracts	1	0.88	35	30.97	48	42.48	27	23.89

Source: 2010 Census Data. 2 census tracts, 1.77%, have no income classification.

As of the 2010 Census, the population of the AA was 774,769, consisting of 170,503 total families. Of total families within the AA, 25 percent are designated low-income, 16 percent moderate-income, 17 percent middle-income, and 42 percent upper-income families, as displayed in the table above. The number of households below the poverty level is 52,037 or 31 percent. The 2010 Census reports 264,604 housing units in the AA with 179,930, or 68 percent, being owner-occupied and having an average median value of \$79,200. 66,151 households, or 25 percent, are occupied rental units with an average monthly gross rent of \$661. The Department of Housing and Urban Development’s (HUD) reported the AA’s median family income was \$38,800 for 2016, \$37,500 for 2015, and \$35,000 for 2014. Based on 2015 Dunn and Bradstreet data, there are 35,757 non-farm businesses in the AA. Of these, 1,566, or 4 percent, reported revenues greater than \$1 million, and 30,199, 84 percent, reported revenues less than \$1 million; 3,992 businesses, 11 percent, did not report revenue for 2015.

To assess TNB’s CRA performance, we discussed community needs with two local contacts. Both contacts indicated a need for affordable housing for low- and moderate-income families. One contact, whose organization works to provide assistance to low income home buyers, indicated there is a significant wait-time for their services and that they see an opportunity for more banks to get involved. The second contact noted the need for small business financing to help revitalize low- and moderate-income areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The LTD ratio is more than reasonable given the bank's capacity to lend, market competition, local demographic and economic factors, and lending opportunities available in the AA. During the evaluation period, the average quarterly LTD ratio was 90 percent and ranged from a low of 78 percent at September 30, 2015, to a high of 103 percent at June 30, 2014. To assess TNB's performance, we compared TNB's average quarterly LTD ratio to three similarly situated community banks with total assets ranging from \$125 million to \$286 million. TNB's LTD ratios exceeded the peer group during the evaluation period. The peer group average quarterly LTD was 70 percent with a low of 57 percent and a high of 82 percent.

Institution	Total Assets (\$000s) As of 12/31/2016	Average Quarterly LTD Ratio As of 12/31/2016
Texas National Bank, Mercedes, TX	\$229,855	90%
Bank of South Texas, McAllen, TX	\$125,214	82%
Rio Bank, McAllen, TX	\$285,969	71%
Elsa State Bank and Trust Company, Elsa, TX	\$191,721	57%

Source: Quarterly Call Report Data from June 30, 2011 through December 31, 2016

Lending in Assessment Area

TNB's lending in the AA is outstanding and exceeds the standard for satisfactory performance. TNB originated a substantial majority of home purchase, refinance, commercial, and consumer loans within the AA. Of the loans in our sample and reported under HMDA originated during the evaluation period, 84 percent by number and 81 percent by dollar volume were inside the AA. The following table shows TNB's lending activities in and out of the AA by type of loan.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	164	83.67	32	16.33	100	28,845	83.16	5,841	16.84	100
Refinance	25	89.29	3	10.71	100	4,950	89.16	602	10.84	100
Commercial	21	84.00	4	16.00	100	6,681	68.12	3,127	31.88	100
Consumer	20	80.00	5	20.00	100	110	53.70	95	46.30	100
Totals	230	83.94	44	16.06	100	40,586	80.77	9,665	19.23	100

Source: Data reported under HMDA and sample of commercial and consumer loans from January 1, 2014 through December 31, 2016

Note: The bank made 6 home improvement loans during this evaluation period; therefore the volume of home improvement loans is not sufficient to perform a meaningful analysis and was omitted from the tables.

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

TNB demonstrates satisfactory performance in lending to businesses of different sizes and to borrowers of different income levels. Commercial and consumer lending exhibited reasonable penetration rates while residential lending reflected poor penetration. However, compensating factors and higher performance in commercial and consumer lending support a satisfactory lending effort by the bank and an overall reasonable penetration rate. The following tables summarize the distribution of TNB’s lending for residential, commercial, and consumer loans.

Residential Lending

Residential lending penetration to low- and moderate-income families is significantly lower than the level of borrowers in the AA and reflects poor performance. However, median family income for 2015 was \$37,500 which places individuals classified in the low- and moderate-income categories with incomes of \$18,750 and \$30,000 or less, respectively. The high level of families who live below the poverty level, 31 percent, coupled with the median home values for the same time period, \$79,200, makes it very difficult for these individuals to qualify for home ownership. Increased competition from larger community and national banks also limit TNB’s ability to lend to these borrowers. An additional factor in our conclusions was that income levels were not applicable in 40 percent of home purchase loans and 48 percent of refinance loans. These loans are not represented in the figures below.

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA								
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 Purchase	25.27	1.22	15.52	1.22	16.77	6.71	42.44	50.61
Refinance	25.27	4.00	15.52	0.00	16.77	0.00	42.44	48.00

Sources: Data reported under HMDA for 2014, 2015, and 2016; U.S. 2010 Census data.

Note: No income information was available for 40.24 percent of home purchase and 48.00 percent of refinance loans.

Commercial Loans

TNB’s pattern of lending to small businesses, those with gross annual revenues less than \$1 million, is satisfactory and reflects reasonable penetration when compared with the percentage of businesses in the AA. TNB made 77 percent by number and 70 percent by dollar to businesses with gross annual revenues of less than \$1 million. The following table depicts TNB’s record of commercial lending.

Table 2A - Borrower Distribution of Loans to Businesses in McAllen-Edinburg-Mission MSA AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	84.46	4.38	11.6	100.00
% of Bank Loans in AA by #	77.78	22.22	0.00	100.00
% of Bank Loans in AA by \$	70.57	29.43	0.00	100.00

Source: Loan sample; 2015 Dunn and Bradstreet data.

Consumer Loans

TNB’s record of consumer lending to low-income borrowers is lower than the level of low-income households in the AA. However, its consumer lending to moderate-income borrowers is more than double the percent of moderate-income households in the AA and is an important compensating factor. Overall consumer lending to low- and moderate-income borrowers shows reasonable penetration and leans to satisfactory performance.

Table 2B - Borrower Distribution of Consumer Loans in McAllen-Edinburg-Mission MSA AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	26.61	15.00	14.75	35.00	15.94	30.00	42.70	20.00

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

Geographic Distribution of Loans

TNB demonstrates a reasonable dispersion and satisfactory performance in lending to businesses and consumers located in low- to moderate-income census tracts. Residential lending reflected a reasonable dispersion of lending while business and consumer lending was excellent. The following tables summarize the geographic distribution of TNB’s lending for residential, commercial, and consumer loans.

Residential Loans

The geographic distribution of residential real estate loans reflects reasonable dispersion. The refinance loans by percentage closely match the owner-occupied housing levels in the AA. However, the home purchase loans were concentrated in the Mercedes and Edinburg middle and upper income tracts area, where TNB has an established presence. TNB only originated six home improvement loans during the evaluation period, therefore the volume of home improvement loans is not sufficient to perform a meaningful analysis. The percentage of the number of loans for home purchases in the single low-income census tract is near the percent of owner-occupied housing in this tract at 0.61 and 0.59, respectively. Home purchase lending is lower to the moderate-income geographies; however, refinance lending to the moderate-income census tracts closely match owner-occupied housing levels and show that TNB lends within moderate-income tracts in its AA.

Table 3 - Geographic Distribution of Residential Real Estate Loans in McAllen-Edinburg-Mission MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Home Purchase	0.59	0.61	28.50	11.59	42.22	34.15	28.69	53.66
Refinance Loans	0.59	0.00	28.50	24.00	42.22	40.00	28.69	36.00

Source: Data reported under HMDA; U.S. Census data.

Business Loans

The geographic distribution of business loans reflects excellent dispersion and outstanding performance. The proportion of loans to businesses located within moderate-income tracts exceeds the percentage of businesses in the moderate-income census tracts and is outstanding. TNB has a strong record of lending to businesses located in moderate-income tracts throughout its AA. The lack of loans to business in low-income census tracts can be discounted by the fact the McAllen-Edinburg-Mission MSA contains only one low income tract and the percentage of businesses located within this tract are so low that opportunities to lend in this area are scarce.

Table 3A - Geographic Distribution of Loans to Businesses in McAllen-Edinburg-Mission MSA AA

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Businesses	0.36	0.00	22.72	41.67	36.06	13.89	40.72	44.44

Source: Loan sample; 2015 Dunn and Bradstreet data. 0.13 percent of businesses located in N/A income tract.

Consumer Loans

The geographic distribution of consumer loans reflects excellent dispersion and outstanding performance. Lending in low and moderate-income areas exceeded the proportion of households as shown in the table below.

Table 3B - Geographic Distribution of Consumer Loans in McAllen-Edinburg-Mission MSA AA

Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.64	10.00	28.74	30.00	42.35	20.00	28.27	40.00

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

Responses to Complaints

TNB has not received any complaints relating to its CRA performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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