



## **INTERMEDIATE SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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### **PUBLIC DISCLOSURE**

**May 29, 2007**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Moody National Bank  
Charter Number 8899**

**2302 Post Office Street  
Galveston, TX 77550**

**Comptroller of the Currency  
Houston Field Office  
1301 McKinney Street, Suite 1410  
Houston, TX 77010**

**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.**

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

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

- The geographic distribution of loans to businesses shows excellent dispersion among low- and moderate-income geographies.
- The geographic distribution of residential real estate loans shows excellent dispersion in low-income geographies for home purchase loan originations and moderate-income geographies for home purchase, home improvement, and refinance loans.
- A substantial number of loans were originated in the assessment area (AA), and lending in the assessment area is more than reasonable.
- Lending to borrowers of different incomes and businesses of different sizes shows reasonable dispersion.
- Overall, the Community Development Test rating is satisfactory and reflects adequate responsiveness to the needs of the AA.

## **SCOPE OF EXAMINATION**

The primary loan products reviewed were residential real estate and small loans to businesses. The Lending Test includes all loans originated for these products from calendar years 2004, 2005, and 2006. Since business lending is the most significant lending product at 66 percent of the loan portfolio, it was assigned the greatest weight in determining the final rating. The evaluation period for the Community Development Test was from the date of the last evaluation of August 11, 2003 through the first day of this examination of May 29, 2007.

Prior to September 1, 2005, MNB was subject to large bank data collection requirements for Home Mortgage Disclosure Act (HMDA) and small business lending. After this date, the bank became an Intermediate Small Bank and was no longer subject to the large bank requirements. However, loan information collected through December 31, 2006 was available. Bank personnel had collected and reported data on HMDA and small loans to businesses (CRA loan data). We completed a data integrity review in January 2007 to determine the accuracy of loan data to be used at this evaluation. We reviewed a sample of HMDA and CRA loan data and found the data was reliable. Error rates in this data were within acceptable tolerance levels.

## **DESCRIPTION OF INSTITUTION**

Moody National Bank (MNB) is owned by Moody Bancshares, Inc. It is a full-service intrastate bank headquartered in Galveston, Texas. The main office is located at 2302 Postoffice Street in Galveston. The bank operates 24 branches in Galveston, Brazoria, Harris, and Fort Bend Counties. ATM services are available at all branches. In addition, there are 5 offsite ATMs in Galveston. The primary lending focus is commercial business lending. Commercial real estate and commercial loans are approximately 66 percent of the loan portfolio. Residential real estate and multifamily lending is 10 percent, and construction and land development is 19 percent. Consumer lending is insignificant at 4 percent. All other loan originations are less than 1 percent. Currently, 8 of the 24 branches are located in supermarkets. In an effort to increase loan growth, management is planning to replace the supermarket branches with traditional branches. From 2005 through 2007, MNB opened 3 traditional branches in Houston, League City, and Alvin, Texas. As of March 31, 2007, MNB had total assets of \$925 million and a tier 1 leverage capital ratio of 7.35 percent. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. The bank received a satisfactory rating at the prior CRA examination dated August 11, 2003.

*Please refer to MNB's CRA Public File for more information about this institution.*

## **DESCRIPTION OF ASSESSMENT AREA**

The AA meets the requirements of the regulation. It includes 338 census tracts in four counties. It includes all of the 61 census tracts (CTs) of Galveston County, all 45 CTs of Brazoria County, 201 CTs in southwest Harris County, and 31 CTs in northeast Fort Bend County. All CTs are in Texas, and they are contiguous resulting in one AA. In addition, all are within the Houston-Sugar Land Metropolitan Statistical Area (MSA). Approximately 33 percent or 113 CTs of the total are designated as low- or moderate-income. Five or 21 percent of the banking centers in the AA are in moderate-income CTs. MNB also has 5 offsite ATMs in Galveston County, and 4 of these ATMs are located in low- or moderate-income CTs. Of the total 24 branches, Galveston County has 10 branches, Brazoria County has 6 branches, and Harris County has 6 branches. Half of the branches in Brazoria County and Harris County are in grocery stores. Fort Bend County only has 2 branches, and both are in grocery stores. The Housing and Urban Development updated MSA median family income for 2006 is \$60,900.

### **GALVESTON COUNTY**

Galveston County is the home of MNB, and a majority of the loans are originated in this county. It has 5 low-income (8%) CTs, 26 moderate-income (43%) CTs, 16 middle-income (26%) CTs, and 14 upper-income (23%) CTs. As of the 2000 U.S. census, the county had a population of 250 thousand. The city of Galveston is the county seat, and it has approximately 57.4 thousand residents. League City has the largest population with 58.5 thousand residents. Galveston County includes the following communities: Galveston, Bacliff, Bayou Vista, Clear Lake Shores, Crystal Beach, Port Bolivar, Caplen, Gilchrist, High Island, Dickinson, Friendswood, Hitchcock, Jamaica Beach, Kemah, La Marque, League City, Santa Fe, Texas City, and the

Village of Tiki Island. Galveston County has 13 percent of its residents living below the poverty level and an unemployment rate of approximately 3 percent.

Galveston is a major tourist destination and is a port of entry for cruise ships. It is also a port of call for cargo ships. The largest employer is the University of Texas Medical branch with more than 10 thousand employees. Other major employers with less than 2 thousand employees each include: American National Insurance Company, Galveston Independent School District, Landry's Seafood, Inc., Galveston County, Moody Gardens, City of Galveston, Fertitta Hospitality, Texas A&M University at Galveston, and the U.S. Army Corp of Engineers.

Based on the number of loans, MNB is ranked 9th in the small business lending market share in Galveston County. It is first in deposit market share among financial institutions in the area. The largest deposit competitors are: Guaranty Bank, Amoco Federal Credit Union, Amegy bank, N. A., Bank of America, N. A., and Texas First Bank. Local banking competition is intense and includes branches of large national banks, regional banks, small community banks, and non-bank financial institutions. The five largest loan competitors in the county include: Capital One, Citibank USA, N.A., GE Capital Financial, Inc., Chase Bank USA, and MBNA America, N.A.

We completed a community contact with the director of an organization in the county serving low- and moderate-income persons and families. The director stated that the greatest need in the area was asset building for people to get out of poverty by using savings accounts. MNB offers a standard array of savings accounts.

## **DESCRIPTION OF BRAZORIA COUNTY**

Brazoria County has 45 CTs. The county does not have any low-income CTs. It has 7 moderate-income (15%), 26 middle-income (58%), and 12 upper-income (27%) CTs. As of the 2000 census, the county had a population of 242 thousand. The county seat is Angleton with 19 thousand residents, and its largest city is Pearland with an estimated population of 79 thousand. Pearland is the fastest growing city south of Houston, and it is adjacent to Houston. Retail, housing, and commercial growth is attributed to several master planned communities. There is vast commercial development including two new outpatient/emergency care hospitals. The largest employers in Pearland include: Pearland Independent School District, Wal-Mart, City of Pearland, Kemlon, Weatherford, TurboCare, Super Target, Lowes, Davis-Lynch, and Packaging Service Company.

Brazoria County has approximately 242 thousand residents. The southern portion of Brazoria County known as Brazosport is more similar to Galveston County than the northern portion that includes Pearland which is similar to Houston. Brazosport has approximately 70 thousand residents and includes the cities of Lake Jackson, Clute, Freeport, Jones Creek, Oyster Creek, Quintana, Richwood, and Surfside Beach. Petrochemical industries are the mainstay of the economy. The largest employer is Dow Chemical Company with more than 4 thousand employees. Other major employers include the Texas Department of Justice and the Infinity Group. The recent unemployment rate was 2.5 percent, and 10 percent of the population live below the poverty level.

Banking competition in Brazoria County is intense. MNB is ranked 14th in deposit market share among financial institutions in the County. The 5 largest competitors in deposit market share include: Texas Dow Credit Union, Guaranty Bank, Wells Fargo Bank, N.A., and Texas Gulf Bank, N.A.

## **DESCRIPTION OF HARRIS COUNTY**

Of the tracts included in MNB's AA, there are 9 CTs (5%) that are low-income and 65 CTs (32%) that are moderate-income. Middle-income CTs in the AA total 67 (33%), and upper-income CTs total 60 (30%). MNB's presence in Harris County is limited with only 6 of the total 24 branches. Compared to Galveston and Brazoria County, Harris has the most potential for officers to originate loans. Harris County is the largest county in Texas and the third largest in the nation. According to the U. S. Census Bureau as of 2003, the county had a population of 3.6 million with a growth rate during the last decade of 13.2 percent. It is the most populous county in Texas and the 3rd most populous county in the United States. The county seat is Houston, the largest city in Texas, and the 4th largest city in the nation. U. S. Census information reveals the population increased almost 20 percent from 1.6 million in 1990 to 2 million in 2000. Predictions of population growth range from 6 to 13 percent by 2010. Houston has the largest medical center in the world, the Texas Medical Center. The Center's economic impact exceeds \$10 billion annually, and it has approximately 61 thousand employees. Also, Houston is second only to New York City in Fortune 500 company headquarters. The unemployment rate is 3 percent, and 11 percent of the population live below the poverty level.

Banking competition is intense. The five largest competitors in the county include: JP Morgan Chase Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A., Amegy Bank, N.A., and Washington Mutual Bank.

## **DESCRIPTION OF FORT BEND COUNTY**

Fort Bend County does not have any low-income CTs. Of the 31 CTs included in MNB's AA, there is 1 moderate-income (3%), 14 middle-income (45%), and 16 upper-income (52%). MNB's presence in Fort Bend County is limited with only 2 of the 24 total branches in 4 counties. Both branches are in grocery stores, and the opportunity to originate loans is limited. However, Fort Bend County has potential for loan growth when MNB opens traditional branches. Fort Bend is one of the fastest growing counties in the United States. As of the 2000 census, the county had a population of 354 thousand and a growth rate of 57 percent in the decade between 1990 and 2000. In addition, a portion of Houston is in Fort Bend County. Major employers include the Fort Bend Independent School District with more than 8 thousand employees and Flour Corporation with approximately 3 thousand employees. The unemployment rate is 2 percent, and 6 percent of the population live below the poverty level.

Banking competition is intense. Major competitors in the area include: Capital One, Wells Fargo Bank, N.A., Chase Bank USA, N.A., Citibank, N.A., and GE Capital Financial, Inc.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Lending Test

The lending test is rated satisfactory.

### Loan-to-Deposit Ratio

Overall, the loan-to-deposit (LTD) ratio is reasonable. The quarterly ratio since the prior evaluation is 33 percent. It is below a peer group quarterly ratio of 67 percent of all banks in the four counties of Galveston, Brazoria, Harris, and Fort Bend. However, most of the bank's branches are in Galveston and Brazoria. A comparison to banks located in these counties is more appropriate. The LTD ratio is similar to a 45 percent peer group average of 12 banks in these two counties. In addition, the most recent ratio was 42 percent at March 31, 2007 reflecting management efforts to increase the LTD ratio during the evaluation period. During 2004, the ratio was in the mid 20 percent range. It increased during 2005 to the low 30 percent range. In 2006, the ratio was in the high 30 percent range. Management plans to continue efforts to increase the LTD ratio. In addition, the volume of public funds not available for lending has decreased recently and has increased the funds available for lending.

### Lending in Assessment Area

Lending in the AA is more than reasonable. A substantial majority of loans originated during 2003, 2004, and 2005 were originated inside the AA. The bank's performance is shown in the table below:

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
Business	1,099	91.97	96	8.03	1,195	144,824	88.98	17,938	11.02	162,762
Residential	253	96.56	9	3.44	262	21,466	93.90	1,395	6.10	22,861
Totals	1,352	92.79	105	7.21	1,457	166,290	89.58	19,333	10.42	185,623

Source: data reported under HMDA and CRA.

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

Lending to borrowers of different incomes shows reasonable penetration. Residential real estate lending represents less than 12 percent of the loan portfolio. Therefore, we assigned less weight in the overall lending rating than we assigned to business lending.

We compared the bank's loan originations for home purchase, home improvement, and refinance to the percentage of AA families based on 2000 U. S. Census information. The bank's originations are less than the characteristics of the AA, but there is not an absence of lending to low- and moderate-income borrowers. The bank's performance is shown in the following table:

<b>Table 2A - Borrower Distribution of Residential Real Estate Loans in Galveston, Brazoria, Harris, and Fort Bend Counties</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	19.70	15.73	17.20	8.99	20.00	14.61	43.10	60.67
Home Improve	19.70	11.61	17.20	6.25	20.00	19.64	43.10	62.50
Refinance	19.70	8.70	17.20	4.35	20.00	17.39	43.10	69.56

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

Lending to businesses of different sizes shows reasonable penetration. The percentage of loan originations to small businesses with revenues of \$1 million or less by number is near to the characteristics of the AA. By dollar, the percentage of the amount is not significantly less than the characteristics of the AA. The bank's performance is shown in the following table:

<b>Table 2B - Borrower Distribution of Loans to Businesses in Galveston, Brazoria, Harris, and Fort Bend Counties</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	69.24	4.53	26.23	100%
% of Bank Loans in AA by #	63.79	32.30	3.91	100%
% of Bank Loans in AA by \$	52.57	44.58	2.85	100%

Source: data reported under CRA; Dun and Bradstreet data.

### Geographic Distribution of Loans

The geographic distribution of home loan products shows excellent dispersion. We compared the loan originations for home purchase, home improvement, and refinance to the percentage of AA owner occupied housing based on 2000 U. S. Census information. For home purchase loan originations, the percentage of the number of loans originated to low- and moderate-income borrowers significantly exceeds the characteristics of the AA. For home improvement and refinance loans, the percentage of the number of loans originated to moderate-income borrowers significantly exceeds the characteristics of the AA as shown in the following table:

<b>Table 3A - Geographic Distribution of Residential Real Estate Loans in Galveston, Brazoria, Harris, and Fort Bend Counties</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	1.39	2.80	20.18	38.32	37.22	22.43	41.21	36.45
Home Improve	1.39	0.86	20.18	44.44	37.22	9.40	41.21	45.30
Refinance	1.39	0.00	20.18	36.00	37.22	32.00	41.21	32.00

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

The geographic distribution of loans to businesses shows excellent dispersion. The percentage of loans originated in low- and moderate-income census tracts exceeds the characteristics of the AA. The bank's performance is shown in the following table:

<b>Table 3B - Geographic Distribution of Loans to Businesses in Galveston, Brazoria, Harris, and Fort Bend Counties</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses/ Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans	% of AA Businesses /Farms	% of Number of Loans
Business Loans	1.76	6.67	22.12	27.55	37.63	36.04	38.06	29.74

*Source: data collected by bank; Dun and Bradstreet data. NA census tracts are 0.43%.*

In addition to an analysis of the bank's origination of home mortgage loan products and loans to businesses, we found 4 loans for multifamily properties were originated during the evaluation period. Of the 4 loans, 3 or 75 percent were originated in moderate-income census tracts exceeding the 36 percent of multifamily properties in those tracts according to U. S. Census Bureau information.

### **Responses to Complaints**

The bank did not receive any CRA related complaints during the CRA evaluation period.

### **Community Development Test**

Overall, the bank's performance under the Community Development Test is satisfactory and reflects adequate responsiveness to the needs of the AA. The level of community development lending is low. However, the level of community development investments and services compensates for the low level of community development loans. Opportunities for community development loans and investments are limited in Galveston, Brazoria, and Fort Bend Counties. Harris County has significant opportunities for both community development loans and community development investments. Overall, the greatest need is affordable housing. Opportunities for services in Galveston, Brazoria, and Harris County are ample.

### Community Development Loans

Qualifying community development loans are loans that meet the definition of community development, as defined in the CRA regulation. Most of the loan originations are in Galveston County. During the evaluation period, officers originated two loans for affordable multifamily housing for a total of \$246 thousand that met the definition of a community development loan. A summary of the qualified community development loans is:

- A loan for \$100 thousand to refinance an apartment building with 18 units in a moderate-income census tract. All of the rents are below the Galveston Average Gross Monthly Rent of \$578.



- A loan for \$146 thousand to refinance an 8-plex rental unit in a moderate-income census tract. The original purpose was to purchase and renovate the properties. The recent rent rolls reflect 37 percent of the rents are below the Galveston Average Gross Monthly Rent, and 63 percent of the units are \$22 over the average gross monthly rents for Galveston.

In addition to the originated loans discussed above meeting all aspects of the community development definition, MNB loan officers originated several loans less than \$1 million in amount that met the purpose test but not the size test of community development. These loans were included in the bank's loans to small businesses information and are included in the Lending Test totals. However, they are worthy of mention in this performance evaluation. These loans are:

- MNB officers originated two loans totaling \$39 thousand to a church in a low-income census tract in Galveston County. The purpose was to construct classrooms for the church. The minister of this church provides educational and counseling sessions to "at risk" youth within the Galveston area who are from predominantly low- to moderate-income families. The church's mission is to provide the youth with a strong community service ethic. The area has known drug and gang activities.
- MNB officers originated one loan of \$155 thousand to an organization for children in Brazoria County. The primary purpose of this organization is to provide direct services to abused and neglected children within Brazoria County. The organization reported 232 families were assisted in 2006. Of the families who reported income to the organization, 54 percent of the families had income levels less than the AA's median family income of \$60,900. This organization is located in a middle-income census tract; however, it provides community development services to families of all income levels.

### Community Development Investments

Qualifying investments are investments, deposits, membership shares, or grants that have as their primary purpose community development as defined in the CRA regulation. The definition includes investments and contributions meeting the definition of community development. The level of community development investments is satisfactory. The bank had 3 prior period investments with remaining balances totaling \$886 thousand. MNB purchased an investment during this evaluation period of \$1.2 million.

The prior period investments are:

- One \$25 thousand municipal revenue bond for the establishment of an open enrollment charter school in the Galveston assessment area. The charter school is for an enrollment of 700 students and serves children pre-K through 8th grade. About 51.4 percent of the students enrolled are economically disadvantaged.
- Two municipal revenue bonds originally totaling \$1 million dollars, with a balance as of this examination of \$861 thousand. The proceeds were to be used to provide community services targeted to and affordable housing for low- and moderate-income residents of

Galveston County, Texas. This bond was ultimately used to fund a nursing home and assisted living facility in the area.

MNB purchased a new investment for \$1.2 million, a mortgage backed security (MBS) through the Fannie Mae MBS program during this evaluation period. The security is composed of nineteen properties with 68 percent of the borrowers reported as having a low- or moderate-income level. Six of the 19 properties or 32 percent are in the bank's AA. The remaining properties are located in areas closely adjacent to the AA in Harris County, Texas.

The bank also made 30 qualifying community development donations totaling \$112 thousand during the evaluation period. Of this total, \$55 thousand was given to a substance abuse facility with treatment facilities in Deer Park (Houston), Fort Worth, and Baton Rouge. Ninety-five percent of the residents are low income or have no income. MNB also made donations to various children's organizations and homeless shelters to benefit low- and moderate-income families.

### Community Development Services

The bank has a good level of community development services. Bank officers are active in several organizations that provide services for low- and moderate-income persons. In addition, officers provide financial technical assistance to organizations that provide community services. The President is actively involved in community development activities that promote economic development in the Galveston AA. The President's activities include the following organizations:

- Galveston County Mayors and Council Members Association
- Coastal Coordination Council
- Galveston Chamber of Commerce
- Galveston Economic Development Partnership
- Galveston County Economic Alliance Foundation
- Galveston County Economic Alliance

The President also serves in either an officer role or on the board of directors of various community development qualifying charities in the AA. These charities are:

- Prevent Blindness of Galveston. The President serves on the board of directors. This charity provides free vision screening to thousands of adults and children per year, and it provides assistance for discounted eye exams and eye wear for low-income persons.
- United Way of Galveston. The President serves as Campaign Chairman.
- Yaga's Children Fund. The President serves on the board of advisors. This charity provides funding to several organizations in the area that serve low- and moderate-income persons.
- Salvation Army Center of Hope. The President serves as Co-Chairman.

Many of the officers and employees serve in various capacities for community development qualifying charities and organizations. The more noteworthy are:

- League City Economic Development Corporation. This organization's primary mission is to promote economic development in the area. League City has a significant low- and moderate-income population.
- Family Services Center of Galveston. This organization provides services to families in the area. These services include programs to develop "at-risk" young people, marriage and family counseling programs, and juvenile justice programs. Eighty-five percent of the families served by this organization are considered low-income.
- National Teach the Children to Save Day. This is an American Bankers Association sponsored annual event to provide financial education classes to area youth. Officers participate in this activity annually. Fifty percent of the schools involved in this activity are located in moderate-income tracts. This event has been the subject of an article in the Texas Bankers Association magazine.
- Big Brothers Big Sisters. This organization provides mentoring services for young people in the area. The Galveston Independent School District has 64 percent of their students who receive for free or reduced lunches.
- St. Vincent's House. This organization provides a food pantry, meals on wheels for senior citizens, and a free medical clinic for low- and moderate-income persons.
- Resource and Crisis Center. This charity provides services for homeless people.
- Gleaning from the Harvest Food Bank of Galveston. This organization provides meals for many low- and moderate-income persons in the AA.

Many officers participate in civic organizations such as local Rotary, Kiwanis, and Lions clubs. Although the primary mission of these organizations is to promote civic involvement and provide networking among area business people, they also have projects that benefit low- and moderate-income persons in the area. Examples of this include the Rotary Club of La Marque providing free dictionaries to a middle school where 70 percent of the students are economically disadvantaged. In addition, these organizations participate in local food drives during the holiday season for low- and moderate- income families. And, the local Lions Club provides free eye exams and eye glasses to persons who cannot afford medical care.

MNB has a reasonable branch distribution. As discussed earlier, MNB has 5 of 24 or 21 percent of its branches located in moderate-income CTs. Of the 5 offsite ATMs, 1 is in a low-income CT, and 3 are in moderate-income CTs.

### **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.