



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 05, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texas National Bank
Charter Number 11879

215 S. Texas Avenue
Mercedes, TX 78570

Office of the Comptroller of the Currency

San Antonio 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's lending performance reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas.

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, market focus, and lending opportunities available in the assessment area.
- The bank made a substantial majority of the loans in our sample to borrowers within its assessment area.
- The bank demonstrates a reasonable distribution of loans to borrowers of different income levels and businesses of different sizes.
- The geographical distribution within the bank's assessment area indicates reasonable dispersion throughout the assessment area.

SCOPE OF EXAMINATION

We performed a small bank Community Reinvestment Act (CRA) examination of the Texas National Bank, using financial data as of March 31, 2011. The evaluation period for lending activity included loans originated between January 1, 2008 and December 31, 2010. The LTD ratio was reviewed using both the current ratio and a 20-quarter average ratio. 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 25 commercial loans. During analysis of the consumer and commercial loans, we omitted loans made outside of the assessment area and supplemented similar loans within the assessment area to ensure a minimum sample size of 25 loans. During the analysis of the consumer loans, we added an additional 15 consumer installment loans made within the assessment area because our initial sample ratios were lower than internal bank estimates.

The following table demonstrates the bank's primary lending products (by number and dollar) during the evaluation period. As identified during previous CRA exams, residential real estate, consumer installment loans, and commercial loans are the bank's primary loan products.

Loan Portfolio Distribution By Loan Type		
Loan Type	% by Dollar of Loans Originated/Purchased during evaluation period	% by Number of Loans Originated/Purchased during evaluation period
Residential Real Estate Loans	44%	33%
Commercial Loans	44%	23%
Consumer Installment Loans	6%	40%
Agricultural Loans	6%	4%
Total	100%	100%

Source: Internal bank reports.

DESCRIPTION OF INSTITUTION

Texas National Bank (TNB) is an independently owned community bank located in Mercedes, Texas. The bank has a branch located in Edinburg and has automated teller machines (ATMs) on its premises, but does not have any ATMs located off-site. TNB is fully owned by MNB Ventures, Inc., which is a one-bank holding company. The bank has total assets of \$76 million with total loans of \$60 million, which represent 77 percent of total assets and 88 percent of deposits. TNB's lending focus centers in commercial, residential, and consumer loans. Other products for construction and development and agricultural purposes are also part of the bank's portfolio.

Our previous CRA Performance Evaluation, dated July 24, 2006, 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 assessment area (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. The county is roughly 1600 square miles of the Rio Grande delta and includes the cities of Pharr, Weslaco, Mercedes, and San Juan, as well as a number of other small cities. Hidalgo County has experienced very rapid population growth in recent years, much of it from international migration. Its population was estimated by the Census Bureau to be 774,769 in 2010. This represents a 36 percent increase since the 2000 Census. The population also grew 49 percent from 1990 to 2000. Unemployment is currently high at 11.9 percent as of May 2011 compared to the overall unemployment rate in Texas, which was 8 percent for the same period. Roughly 35 percent of persons living in Hidalgo County have income below the poverty level, compared to 17 percent for the state of Texas.

Employment within the AA consists primarily of government, education and health services, and trade, transportation and utility companies. This includes many services such as retail sales and food preparation as well as other small business employment. Several manufacturers have operations in the McAllen area, with some of these across the border in Mexico. The international trade with Mexico is significant to the local economy. Also, the citrus business in the area is a significant source of economic activity. Major employers include the McAllen and Edinburg Consolidated Independent School Districts, county and city governments, and the University of Texas-Pan American.

Competition for lending in the AA is aggressive. Other institutions include 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, Capital One Bank N.A., 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	31,278	23.49	22,455	16.86	23,537	17.67	55,916	41.98
Census Tracts	0	0	23	28.75	38	47.50	19	23.75

Source: 2000 Census Data.

As of the 2000 Census, the population of the AA was 569,463, consisting of 133,186 total families. The AA family total comprised of approximately 23 percent low-income, 17 percent moderate-income, 18 percent middle-income, and 42 percent upper-income families, as displayed in the table above. The number of households considered below the poverty level is 49,950 or about 32 percent. Of the AA's 192,658 housing units, approximately 60 percent (114,570) are owner-occupied and have an average median cost of \$49,916, and about 22 percent (42,254) are occupied rental units. The average monthly gross rent is \$406. The Department of Housing and Urban Development's (HUD) estimate of the AA's median family income was \$33,200 for 2010, \$32,000 for 2009 and was \$31,600 for 2008. Based on 2010 Dunn and Bradstreet data, there are 36,917 non-farm businesses reported in the AA. Of these, 1,133 (3 percent) reported revenues greater than \$1 million, and 28,191 (76 percent) reported revenues less than \$1 million; 7,593 businesses (21 percent) in the AA did not report revenue for 2010.

We made one community contact in the AA. The individual indicated a need for financial education, as many people in the area do not have checking or savings accounts. Additionally, there is a need for affordable housing. The contact indicated that banks in the area demonstrated a low level of interest in helping with the need for financial education. However, no specific information was provided regarding Texas National Bank.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

TNB has demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products originated since the previous CRA examination: commercial and residential loans.

Loan-to-Deposit (LTD) Ratio

The LTD ratio of 88.39 percent as of March 31, 2011 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. There are no other banks in the AA which are under \$100 million in total assets; therefore, we selected four other community banks that had four or fewer branches in the AA for comparison. The average LTD ratio over the last 20 quarters since the prior CRA examination of 86.69 percent is also reasonable. The bank's quarterly LTD ratio ranged from a low of 77.03 percent at March 31, 2008, to a high of 96.89 percent at December 31, 2006. For analysis purposes, TNB's current and 20-quarter average LTD ratios were compared with a custom peer group consisting of FDIC insured financial institutions also lending in the AA. The analysis shows that TNB's LTD ratios exceeded the peer group's average of 75.24 percent for the same time period. The peer group LTDs ranged from an average low LTV of 52.36 percent and an average high LTV of 85.66 percent.

Lending in Assessment Area

TNB's lending in the AA exceeds the standard for satisfactory performance. A substantial majority of the bank's lending-related activities are within the AA. Both by dollar volume and by number, 93 percent of the bank's loans in our sample and loans reported under HMDA originated during the evaluation period were inside its AA. The following table shows the bank's lending activities in and out of the AA by type of loan.

Table 1 - Lending in McAllen-Edinburg-Mission MSA AA										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	113	90.40	12	9.60	125	17,360	91.21	1,674	8.79	19,034
Home Improvement	2	100.00	0	0.00	2	48	100.00	0	0.00	48
Refinance	11	100.00	0	0.00	11	1,770	100.00	0	0.00	1,770
Consumer	24	96.00	1	4.00	25	228	95.00	12	5.00	240
Commercial	25	100.00	0	0.00	25	4,327	100.00	0	0.00	4,327
Totals	175	93.09	13	6.91	188	23,733	93.37	1,686	6.63	25,419

Source: Data reported under HMDA, and results from our analysis.

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

TNB demonstrates reasonable penetration when lending to businesses of different sizes and to borrowers of different income levels. Some areas reflect strong penetration, while others are weak, but overall, support a satisfactory lending effort by the bank. The following tables summarize the distribution of TNB's lending for commercial, residential, and consumer loans.

Residential lending penetration to low-income families is lower than the level of low-income borrowers in the AA. However, given the low level of median family income, individuals in this category would have incomes of \$16,600 or less (based on the 2010 median income). This reduces the bank's ability to lend to these borrowers for residential real estate lending due to the cost of homes. Another compensating factor is that TNB's real estate lending to moderate-income individuals considerably exceeds the number of moderate-income families in the AA. Another important factor is that income levels were not applicable in 22.14 percent of home purchase loans and 36.37 percent for refinance loans. These loans are not represented in the figures below. Additionally, the bank only originated two home improvement loans during the evaluation period, therefore the analysis of these loans is not meaningful.

Table 2 - Borrower Distribution of Residential Real Estate Loans in McAllen-Edinburg-Mission MSA 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	23.49	0.88	16.86	4.42	17.67	11.50	41.98	61.06
Home Improvement	23.49	0.00	16.86	0.00	17.67	0.00	41.98	100.00
Refinance	23.49	9.09	16.86	27.27	17.67	9.09	41.98	18.18

Source: Data reported under HMDA; U.S. Census data. Income NA for 22.14% of home purchase and 36.37% for refinance loans.

TNB's pattern of lending to small businesses, those with gross annual revenues less than \$1 million, compares closely with the percentage of businesses in the AA. The bank made 72 percent by number and about 77 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	76.36	3.07	20.57	100.00
% of Bank Loans in AA by #	72.00	28.00	0.00	100.00
% of Bank Loans in AA by \$	76.59	23.41	0.00	100.00

Source: Loan sample; Dunn and Bradstreet data.

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 strong and is an important compensating factor. Overall consumer lending to low- and moderate-income borrowers is reasonable.

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	24.88	10.00	16.13	28.00	16.71	15.00	42.28	47.00

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

Geographic Distribution of Loans

The geographic distribution of residential real estate loans is satisfactory. The refinance loans by percentage closely match the housing levels in the AA. However, the home purchase loans were somewhat concentrated in the Mercedes, Texas area middle-income tracts, which is where TNB has an established presence. There were only two home improvement loans originated during the period, therefore analysis on those loans specifically is not meaningful. The home purchase lending is lower to the moderate-income geographies. Home sales in the moderate-income tracts have been lower than those in the middle- and upper-income tracts. It is clear from the refinances listed below, 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	0.00	0.00	27.56	3.54	48.45	54.87	23.99	41.59
Home Improvement	0.00	0.00	27.56	0.00	48.45	50.00	23.99	50.00
Refinance	0.00	0.00	27.56	27.27	48.45	54.55	23.99	18.18

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

The proportion of loans to businesses located within moderate-income tracts exceeds the percentage of businesses in the moderate-income census tracts. The bank has a strong record of lending to businesses located in moderate-income tracts throughout its AA.

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	0.00	0.00	19.75	24.00	42.20	36.00	38.05	40.00

Source: Loan sample; Dunn and Bradstreet data.

Our consumer sample also indicated satisfactory distribution of lending efforts throughout the AA. Lending in moderate-income areas was below the proportion of households, but still supports a reasonable lending effort.

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	0.00	0.00	27.08	15.00	46.75	52.50	26.17	32.50

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

Responses to Complaints

TNB has not received any complaints specific to its CRA performance during this 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.