



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 26, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texana Bank, National Association
Charter Number 10476

124 East Rush Street
Linden, TX 75563

Office of the Comptroller of the Currency

1800 NW Loop 281, Suite 306
Longview, TX 75604-2516

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

Texana Bank, National Association has a satisfactory record of meeting community credit needs. This rating is based on the following:

- The bank's loan to deposit ratio is reasonable based on its size and complexity.
- A majority of the bank's loans are extended within the bank's assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels and businesses of different sizes.
- The distribution of loans by geography reflects a reasonable penetration throughout the assessment areas.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is an assessment of Texana Bank's ability to meet the credit needs of the communities in which it operates. The bank was evaluated under the small bank performance criteria. We performed full scope reviews on each of the bank's assessment areas. Conclusions regarding the bank's lending performance are based on residential and business loans originating from January 1, 2010 to December 31, 2011 in the Cass and Gregg County assessment areas. Conclusions regarding the bank's lending performance in the Texarkana assessment area are based on business loans originating in the same time period. Residential loans were not included in the scope of this review due to the low volume of loans made during this period.

DESCRIPTION OF INSTITUTION

Texana Bank, N.A. is a \$149 million bank headquartered in Linden, Texas. Texana Bank serves the north east Texas area with banking locations in rural Cass County, Gregg County, located in the Longview Metropolitan Statistical Area (MSA) and Texarkana, Texas, which is included in the Texarkana MSA, a multi-state MSA. The bank is wholly owned by Linden Bancshares, Inc., a one bank holding company.

Texana Bank's philosophy is to be a full service institution by providing a wide array of financial services to consumers and commercial businesses. The bank has experienced significant growth since 2006, with branches opened in the Longview and Texarkana MSAs since that time. Texana Bank is retail oriented and offers a wide range of deposit and loan products. As of September 30, 2012, the bank's net loans represented 80 percent of total assets. The following chart reflects the distribution of the bank's loan portfolio:

| Loan Category | \$ (000) | % |
|------------------------|------------------|----------------|
| Residential | 41,241 | 34.82 |
| Commercial | 40,614 | 34.29 |
| Commercial Real Estate | 25,780 | 21.77 |
| Consumer | 9,506 | 8.03 |
| Farm | 1,287 | 1.09 |
| Total | \$118,428 | 100.00% |

There are no financial or legal obstacles affecting the bank's ability to meet community credit needs. Texana Bank's Tier 1 capital level is \$13 million representing 8.67 percent of adjusted average assets as of September 30, 2012. The bank was rated "Satisfactory" during the prior Community Reinvestment Act (CRA) Examination dated June 18, 2007.

DESCRIPTION OF ASSESSMENT AREAS

The Board has designated Cass County, Gregg Counties and the Texarkana MSA as the bank's assessment areas. These assessment areas meet the requirements of the Community Reinvestment Act and do not arbitrarily exclude low and moderate-income geographies. Our review included an assessment of the bank's lending in all assessment areas.

Cass County

Texana Bank's main office is located in Linden, Texas in Cass County. Cass County has no low or moderate income tracts, with all tracts designated as middle income. Based on 2000 census data, the county has a total population of 30,438 and the local economy is considered weak. The bank's primary competition consists of other state chartered and national chartered banks operating within the bank's assessment area. The distribution of families by income level, regardless of census tract location, consists of the following: 22.26 percent are low income, 18.57 percent are moderate income, 21.22 percent are middle income, and 37.95 percent are upper income. Major employers in Cass County include International Paper, area school districts, Wal-Mart, and Atlanta Memorial Hospital. Contact with a local business organization revealed the primary community credit needs for the assessment area are residential mortgages and small commercial loans. The following table reflects the demographics for the assessment area (AA):

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF CASS COUNTY | |
|--|----------|
| <i>Population</i> | |
| Number of Families | 8,685 |
| Number of Households | 12,186 |
| <i>Geographies</i> | |
| Number of Census Tracts/BNA | 7 |
| % Low-Income Census Tracts/BNA | 0.00% |
| % Moderate-Income Census Tracts/BNA | 0.00% |
| % Middle-Income Census Tracts/BNA | 100.00% |
| % Upper-Income Census Tracts/BNA | 0.00% |
| <i>Median Family Income (MFI)</i> | |
| 2000 MFI for AA | \$36,380 |
| 2011 HUD-Adjusted MFI | \$48,600 |
| <i>Economic Indicators</i> | |
| 2000 Unemployment Rate | 3.04% |
| Median Housing Value | \$50,223 |
| % of Households Below Poverty Level | 18.78% |

Gregg County

The bank has designated Gregg County as its assessment area for the two branches located in Longview, Texas. Gregg County is a part of the Longview Metropolitan Statistical (MSA) area and includes no low income tracts, eight moderate income tracts, nine middle and 6 upper income tracts. Competition is strong with several branches of larger national and other local financial institutions and mortgage companies. Based on 2000 census data, the distribution of families by income level, regardless of census tract location, consists of the following: 20.39 percent are low income, 16.86 percent are moderate income, 20.16 percent are middle income, and 42.60 percent are upper income. Major employers in the area include Good Shepherd Medical Center, Eastman Chemical, Longview Independent School District and Wal-Mart. Contact with a local business organization revealed the primary community credit need for the assessment area is residential mortgages and commercial loans. The following table reflects the demographics for the assessment area (AA):

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF GREGG COUNTY | |
|---|----------|
| <i>Population</i> | |
| Number of Families | 29,854 |
| Number of Households | 42,647 |
| <i>Geographies</i> | |
| Number of Census Tracts/BNA | 23 |
| % Low-Income Census Tracts/BNA | 0.00% |
| % Moderate-Income Census Tracts/BNA | 34.78% |
| % Middle-Income Census Tracts/BNA | 39.13% |
| % Upper-Income Census Tracts/BNA | 26.09% |
| <i>Median Family Income (MFI)</i> | |
| 2000 MFI for AA | \$40,970 |
| 2011 HUD-Adjusted MFI | \$55,600 |
| <i>Economic Indicators</i> | |
| 2000 Unemployment Rate | 4.25% |
| Median Housing Value | \$72,145 |
| % of Households Below Poverty Level | 14.67% |

Texarkana MSA

The bank has designated portions of Bowie County, Texas and Miller County, Arkansas as its assessment area for the branch located in Texarkana, Texas. Bowie and Miller Counties make up the Texarkana MSA, a multi-state MSA. The bank has designated 21 census tracts located in Bowie and Miller Counties as its assessment area. This area includes 3 low income tracts, 4 moderate income tracts, 11 middle and 3 upper income census tracts. Competition is strong with several branches of larger national and other local financial institutions and mortgage companies. Based on 2000 census data, the distribution of families by income level, regardless of census tract location, consists of the following: 23.74 percent are low income, 15.86 percent are moderate income, 18.39 percent are middle income, and 42.01 percent are upper income. Major employers in the area include the Red River Army Depot, Christus St. Michael Health System, Cooper Tire and the Texarkana Independent School District. Contact with a local business organization revealed the primary community credit need for the assessment area is commercial loans. The following table reflects the demographics for the assessment area (AA):

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF TEXARKANA MSA AA | |
|---|----------|
| <i>Population</i> | |
| Number of Families | 25,674 |
| Number of Households | 36,751 |
| <i>Geographies</i> | |
| Number of Census Tracts/BNA | 21 |
| % Low-Income Census Tracts/BNA | 14.29% |
| % Moderate-Income Census Tracts/BNA | 19.05% |
| % Middle-Income Census Tracts/BNA | 52.38% |
| % Upper-Income Census Tracts/BNA | 14.29% |
| <i>Median Family Income (MFI)</i> | |
| 2000 MFI for AA | \$39,684 |
| 2011 HUD-Adjusted MFI | \$51,200 |
| <i>Economic Indicators</i> | |
| 2000 Unemployment Rate | 4.28% |
| Median Housing Value | \$61,838 |
| % of Households Below Poverty Level | 17.96% |

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio of Texana Bank is reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly loan-to-deposit ratio has averaged 81.19 percent since the prior CRA examination. The average loan-to-deposit ratio of banks within the assessment area, regardless of size, for the same time period is 76.18 percent.

| Institution | Assets (000s) (as of 9/30/12) | Average LTD Ratio |
|---------------------------------------|--|------------------------------|
| Texana Bank, National Association | 148,579 | 81.19 |
| Morris County National Bank | 89,844 | 59.06 |
| Community Bank, Longview | 153,677 | 82.32 |
| Springhill State Bank | 172,087 | 91.19 |
| Commercial National Bank, Texarkana | 187,402 | 69.19 |
| First National Bank of Hughes Springs | 205,503 | 61.48 |
| First National Bank, Texarkana | 305,693 | 93.86 |
| Average Loan to Deposit Ratio | | 76.18 |

Lending in Assessment Area

A majority of the bank's lending activity is located inside its assessment area. We reviewed all HMDA home purchase and refinance loans for the years 2010 and 2011 and a sample of commercial loans in each assessment area. This sample reflected approximately 75 percent of the number and dollar amount of loans were extended in the bank's assessment areas. The breakdown by loan category is illustrated in the following table:

| Lending in Cass, Gregg, and Texarkana MSA Assessment Areas | | | | | | | | | | |
|--|-----------------|-------|---------|-------|-------|------------------|-------|---------|-------|--------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Home Purchase | 91 | 71.09 | 37 | 28.91 | 128 | 8,773 | 73.89 | 3,100 | 26.11 | 11,873 |
| Refinance | 77 | 79.38 | 20 | 20.62 | 97 | 5,979 | 76.94 | 1,792 | 23.06 | 7,771 |
| Commercial | 15 | 75.00 | 5 | 25.00 | 20 | 1,256 | 71.72 | 495 | 28.28 | 1,751 |
| Totals | 183 | 74.69 | 62 | 25.31 | 245 | 16,008 | 74.82 | 5,387 | 25.18 | 21,395 |

Source: Data reported under HMDA and Loan Sample.

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

Texana Bank's distribution of loans by income level of the borrower reflects a reasonable penetration given the overall demographics of the bank's assessment areas.

Cass County

The distribution of loans by income level of the borrower is reasonable in Cass County. There is low penetration to low-income individuals for residential purchase loans in this assessment area. Lending to low-income borrowers for residential purchase loans is less than the percentage of low-income families. However, loans to refinance residential property for low income borrowers exceeds the percentage of low-income families. Lending to moderate income borrowers for residential purchase exceeds the percentage of moderate income families while lending to moderate income borrowers for refinance is less than the percentage of moderate income families. Approximately 19 percent of the households in the assessment area live below the poverty level with approximately 40 percent receiving social security or public assistance. Additionally, during 2010 and 2011, unemployment rates in Cass County were high at 11 percent. We considered these factors when reviewing the bank's residential lending in Cass County.

| Borrower Distribution of Residential Real Estate Loans in Cass County Assessment Area | | | | | | | | | |
|---|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|--|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | | |
| Loan Type | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | |
| Home Purchase | 22.26 | 7.41 | 18.57 | 25.93 | 21.22 | 29.63 | 37.95 | 37.04 | |
| Refinance | 22.26 | 23.53 | 18.57 | 5.88 | 21.22 | 14.71 | 37.95 | 50.00 | |

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

The bank’s distribution of loans to small businesses in the Cass County assessment area is more than reasonable. The percentage of loans to businesses with revenues of \$1 million or less exceeds the percentage of businesses with revenues of \$1 million or less.

| Borrower Distribution of Loans to Businesses in Cass County Assessment Area | | | | |
|---|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 69.63% | 1.63% | 28.74% | 100% |
| % of Bank Loans in AA by # | 75.00% | 25.00% | 0.00% | 100% |
| % of Bank Loans in AA by \$ | 75.62% | 24.38% | 0.00% | 100% |

Source: Loan sample; Dun and Bradstreet data.

Gregg County

The distribution of loans by income level of the borrower is reasonable in Gregg County. There are no loans to low-income individuals for residential purchase loans in this assessment area. However, lending to moderate income borrowers for residential purchase exceeds the percentage of moderate income families. Approximately 15 percent of the households in the assessment area live below the poverty level. The average cost of housing is \$72 thousand while a low income person earns less than \$28 thousand. Furthermore, competition for home mortgage products is strong with numerous bank, mortgage companies and financial institutions vying for these products. We considered these mitigating factors in our home mortgage lending analysis to low and moderate-income borrowers.

| Borrower Distribution of Residential Real Estate Loans in Gregg County Assessment Area | | | | | | | | |
|--|------------------|-----------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|
| Borrower Income Level | Low | | Moderate | | Middle | | Upper | |
| | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans | % of AA Families | % of # of Loans |
| Home Purchase | 20.39 | 0.00 | 16.86 | 18.00 | 20.16 | 20.00 | 42.60 | 46.00 |

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

The bank’s distribution of loans to small businesses in the Gregg County assessment area is reasonable. The percentage of loans to businesses with revenues of \$1 million or less exceeds the percentage of businesses with revenues of \$1 million or less.

| Borrower Distribution of Loans to Businesses in Gregg County Assessment Area | | | | |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 67.03 | 2.94% | 30.03% | 100% |
| % of Bank Loans in AA by # | 70.00% | 30.00% | 0.00% | 100% |
| % of Bank Loans in AA by \$ | 31.49% | 68.51% | 0.00% | 100% |

Source: Loan sample; Dun and Bradstreet data.

Texarkana MSA

Texana Bank entered the Texarkana market during 2010 with a focus on commercial lending. The level of residential loans made during the review period was insufficient for an accurate analysis and therefore not included in the scope of this review.

The bank’s distribution of loans to small businesses in the Texarkana MSA assessment area is reasonable. The percentage of loans to businesses with revenues of \$1 million or less is near to the percentage of businesses with revenues of \$1 million or less.

| Borrower Distribution of Loans to Businesses in Texarkana MSA Assessment Area | | | | |
|--|--------------|--------------|-------------------------|-------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 | Unavailable/ Unknown | Total |
| % of AA Businesses | 68.69 | 2.65% | 28.66% | 100% |
| % of Bank Loans in AA by # | 55.00% | 45.00% | 0.00% | 100% |
| % of Bank Loans in AA by \$ | 27.51% | 72.49% | 0.00% | 100% |

Source: Loan sample; Dun and Bradstreet data.

Geographic Distribution of Loans

Texana Bank’s distribution of loans by geography reflects a reasonable penetration given the overall demographics of the bank’s assessment areas.

Cass County

A geographic analysis of lending activity within Cass County was not performed. There are no low or moderate-income geographies located in this assessment area; therefore, a geographic analysis would not be meaningful.

Gregg County

The distribution of loans by income level of the geography in Gregg County is excellent. There are no low income tracts in the Gregg County assessment area. The distribution of home purchase loans in moderate-income tracts exceeds the percentage of owner-occupied housing units in the moderate-income tracts.

| Geographic Distribution of Residential Real Estate Loans in Gregg County Assessment Area | | | | | | | | |
|---|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| 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 | 0.00 | 0.00 | 22.65 | 50.00 | 44.16 | 30.00 | 33.19 | 20.00 |

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

The geographic distribution of loans to businesses is reasonable given the bank’s locations and demographics of the area. The percentage of business loans made in the moderate tracts is near to the percentage of businesses in these tracts.

| Geographic Distribution of Loans to Businesses in Gregg County Assessment Area | | | | | | | | |
|--|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % 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 | 29.05 | 20.00 | 41.78 | 40.00 | 29.17 | 40.00 |

Source: Loan sample; Dun and Bradstreet data.

Texarkana MSA

The geographic distribution of loans to businesses is reasonable given the bank’s locations and demographics of the area. The percentage of business loans made in the low and moderate tracts is near to the percentage of businesses in these tracts.

| Geographic Distribution of Loans to Businesses in Texarkana MSA Assessment Area | | | | | | | | |
|---|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| Census Tract Income Level | Low | | Moderate | | Middle | | Upper | |
| Loan Type | % 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 | 7.35 | 3.33 | 15.14 | 11.67 | 53.68 | 50.00 | 23.83 | 35.00 |

Source: Loan sample; Dun and Bradstreet data.

Responses to Complaints

Texana Bank has not received any complaints or public comments regarding 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 the community credit needs.