



## **PUBLIC DISCLOSURE**

March 13, 2017

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

Moody National Bank  
Charter Number 8899

2302 Post Office Street Galveston, TX 77550-1935

Office of the Comptroller of the Currency

1301 McKinney Street Suite 1410 Houston, TX 77010-3031

**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: Outstanding.**

The major factors supporting the ratings are as follows:

- The bank's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance.
- The bank originates a majority of its loans inside its assessment area.
- Lending to businesses of different sizes in the Houston and Austin assessment areas (AA) reflects reasonable penetration to business with revenues of \$1 million or less.
- The bank's performance reflects reasonable penetration to low-and moderate-income (LMI) borrowers for residential home mortgage loans in the Houston AA. The bank's performance reflects similar penetration to moderate-income borrowers in the Austin AA.
- The geographic distribution of loans to businesses exceeds the characteristics of the Houston AA for loans originated in the low-and moderate-income census tracts (CT). The bank has similar performance in the Austin AA for low-income CT and has reasonable dispersion in moderate-income CT for loans to businesses.
- The geographic distribution of loans for residential real estate mortgages reflects reasonable dispersion for the Houston AA, with stronger performance in low-income geographies for home purchase loans. The bank also has stronger performance in moderate-income geographies for all real estate products in the Houston AA.
- The bank's community development (CD) activities demonstrate excellent responsiveness to CD needs in its AA.

## **Scope of Examination**

We completed a review of Moody National Bank's (MNB) Community Reinvestment Act (CRA) performance in its assessment areas (AA). MNB was evaluated under the Intermediate Small Bank (ISB) CRA procedures, which includes a lending test and a Community Development (CD) Test. The lending test evaluates the bank's record of meeting the credit needs of the bank's AA through lending activities.

The CD test evaluates the bank's responsiveness to CD needs in its AA through qualified CD lending, investments and donations, and services. For the lending test, the time-period covered was January 1, 2014 to December 31, 2016. All of the Home Mortgage Disclosure Act (HMDA) loans originated during the evaluation period were reviewed. The bank collects demographic data on small business and small farm loans, therefore, we also reviewed these loans during the evaluation period.

Our review included 343 residential real estate loans totaling \$78 million and 832 small loans to businesses totaling \$148 million originated or refinanced, during the evaluation period. We used reliable data, collected by management, for both loan products.

For the CD Test, our review included all CD loans, investments and donations, and services since the last CRA examination dated March 3, 2014, through the date of this evaluation of March 13, 2017. Management provided reliable data for the CD Test.

Prior to the CRA evaluation, we conducted a data integrity review beginning November 29, 2016. As an ISB, management is not required to collect data on its business loans; however, they have elected to. For 1-4 family residential real estate loan originations and refinancing, management is required to collect and submit data in accordance with HMDA guidelines. We concluded that the bank has implemented satisfactory internal controls to ensure the accuracy and reliability of both HMDA loan data and business loan data. We also reviewed CD activities during the data integrity review and found the data reliable.

## **Description of Institution**

MNB is a full-service community bank with full trust powers, headquartered in Galveston, Texas at 203 Post Office Street. The bank is part of Moody Bank Holding Company, Inc., which is a two-bank holding company. The bank operates sixteen branches; seven in Galveston County, two in Brazoria County, five in Harris County, one in Fort Bend County, and one in Travis County. Branch locations include one in a low-income CT, two in moderate-income CT, three in middle-income CT, and ten in upper-income CT. During the review period, there were five branch closings and one branch opening. There were four branch closings in the Houston assessment area (AA); three branches were located in middle-income CT and one branch was located in an upper-income CT. In the Austin AA, one branch was relocated from an inaccessible moderate-income CT to an upper-income CT located in downtown Austin, Texas.

Branch hours are reasonable with openings at 8:30 am or 9:00 am and closings at 5:00 pm or 5:30 pm. Nine of the branches are opened on Saturday from 9:00 am to noon. Additionally, all branches have automated teller machines (ATM) and there are two additional ATMs located in Galveston, Texas. The bank provides 24-hour account access through online and mobile banking.

The bank offers a variety of business and personal loans including commercial real estate, business lines of credit, term loans, home mortgage products, certificate of deposit loans and personal loans. MNB also offers business and personal checking and savings accounts, certificates of deposits, online and mobile banking, and mobile deposit enrollment.

As of December 31, 2016, MNB reported total assets of \$954 million, net loans and leases of \$597 million, and a tier one leverage capital ratio of 13.14 percent. Business financing represents the largest portion of the loan portfolio at 65.44 percent by dollar amount and 41.73 percent by number. Residential real estate financing represents 12.08 percent by dollar amount and 18.15 percent by number. Additionally, by number, consumer loans represent 23.58 percent.

There are no legal or financial factors that impeded the bank's ability to help meet the credit needs of the AA. MNB was rated "satisfactory" at the last CRA evaluation dated March 3, 2014.

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

## **Description of Assessment Areas**

MNB has two assessment areas (AA), Houston AA and Austin, AA in Texas that meet the requirements of the regulation. **The Houston AA** includes four contiguous counties in the Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA). The Houston AA is comprised of 416 census tracts (CT) in the four counties. It includes all 50 CT of Brazoria County, all 76 CT of Fort Bend County, all 66 CT of Galveston County, and 224 of 786 CT in Harris County. There are 30 low-income CT (7 percent), 120 moderate-income CT (29 percent), 127 middle-income CT (31 percent), and 138 upper-income CT (33 percent). The AA has one CT with no income designation. (0.24 percent). Of the 17 branches in the Houston AA, seven are located in Galveston County, five in Brazoria County, four in Harris County, and one in Ft. Bend County. According to 2010 U.S. Census Bureau (U.S. Census) information, there are approximately 2.4 million residents in the Houston AA; approximately four percent are unemployed, 12 percent are retired, and 19 percent receive social security benefits. The Bureau of Labor Statistics reports the unemployment rate at 5.8 percent for the Houston-The Woodlands-Sugarland MSA (Houston), as of January 2017. The Housing and Urban Development (HUD) updated MSA median family income for 2016 was \$68,000. The bank was started in Galveston County, and this is where the largest number of branches are located.

Major employers in the Houston MSA include Shell Oil, Exxon Oil, CenterPoint Energy, Continental Airlines, and local and government offices. The Texas Medical Center (TMC) is also a major employer with 106,000 employees, 54 institutions and thousands of volunteers.

The TMC is home to M.D. Anderson Cancer Center, Baylor College of Medicine, Houston Methodist Hospital, St Luke's Health, Memorial Hermann-Texas Medical Center, The Texas Heart Institute and the University of Texas Health Services Center. The bank has 98 percent of its deposit base located in the Houston AA of which 79 percent of its deposits are located in Galveston County.

### **Galveston County**

Galveston County is the home and headquarters for MNB. Galveston County has 66 CT. There are eight low-income CT (12 percent), 17 moderate-income CT (26 percent), 20 middle-income CT (30 percent), and 21 upper-income CT (32 percent). As per the 2010 U.S. Census, the county had a population of 291 thousand. The City of Galveston is the county seat, and it had approximately 50 thousand residents as of 2015. The largest city is League City with 96 thousand residents. According to the 2010 U.S. Census, Galveston County had 12 percent of its residents living below the poverty level. The unemployment rate as of 2015 was five percent according to the Texas Workforce Commission. The median housing value in the AA is \$144,440. The U.S. Census reported 57 percent of owner occupied housing and 25 percent of rental occupied units in the AA. However, the 2016 American Community Survey reported that 56.3 percent of the total housing units in Galveston are rental units. These demographics would inhibit a bank from making home mortgage loans in the AA, as more than half of the housing stock is rental properties. The Galveston County 2012 Needs Assessment reported the vacancy rate of owner occupied units at 1.46 percent. At the time of the report, there were less than 400 homes for sale priced between \$100,000 and \$150,000. Most low-income households would not be able to afford a mortgage on a home of this value. Most homes in this price range are older homes that are not built to current construction codes. After Hurricane Ike, 17 square miles of terrain were designated by Federal Emergency Management Agency (FEMA) as high risk areas in Galveston County and thus not appropriate for residential construction unless municipal drainage improvements are made. As stated above, seven of the bank's branches are located in Galveston County. The cities located in Galveston County are: Bayou Vista, Clear Lake Shores, Dickinson, Friendswood, Galveston, Hitchcock, Jamaica Beach, Kemah, La Marque, Santa Fe, Seabrook, Texas City, and Tiki Island Village.

Galveston is a major tourist destination, a port of entry for cruise ships and also a port of call for cargo ships. Major employers are University of Texas Medical Branch (UTMB), Landry's Inc., Galveston County, Galveston Independent School District (ISD), Moody Gardens, American National Insurance Company, City of Galveston, Schlitterbahn, Walmart, International Longshoreman Association, Mitchell Historic properties, and Texas A & M Galveston.

MNB has a 9.52 percent market share and is ranked number one in deposit market share among financial institutions in the county. Local banking competition includes branches of large national banks, regional banks, small community banks, and non-bank financial institutions.

The largest deposit competitors are Amoco Federal Credit Union, Texas First Bank, Bank of America N.A., JP Morgan Chase N.A., Compass Bank, Amegy Bank N.A., Wells Fargo Bank N.A., and Hometown Bank N.A., according to the Federal Deposit Insurance Corporation (FDIC).

Hurricane Ike occurred in the fall of 2008. The City of Galveston has developed a comprehensive plan dated October 6, 2011 to address recovery and other city needs. Affordable housing is addressed in the plan. Initiatives include improving the condition of existing housing stock and expanding choices for renters, elderly, low-to-moderate income and middle-income residents. The plan indicates three of five households in the city are renters. Several objectives in the plan call for the expansion of the supply of middle-income housing. The plan also calls for habitable structures to be brought up to minimum code standards and removal of dilapidated structures when there is no other alternative. The city is partnering with the Galveston County Health Department and UTMB to address lead paint abatement. The city will continue to support the Renaissance Zone Program administered by the Family, Children, and Youth Board to provide amenities such as sidewalks and improvements in low-to-moderate income neighborhoods to comply with the Disability Act. The plan also has initiatives to expand housing choices for low-to-moderate income households. The city has a Homebuyer Assistance Program that provides up to \$14,500 in funds for down payment and closing cost assistance.

The City of Galveston plan also includes economic development initiatives to revitalize Downtown, make improvements to the Seawall, 61<sup>st</sup> Street, Harborside Drive and 25<sup>th</sup> Street. The plan also has initiatives to support development of new businesses and industries. The city has made improvements to its permitting process to enable small businesses to open businesses sooner and is investigating a micro-loan program to assist both established and new small businesses.

During the evaluation period, we made a community contact to a local city organization. The contact reported there was a need for affordable housing in the Galveston AA. Hurricane Ike destroyed over 500 public housing units in 2008. There is an agreement with the State of Texas to replace these units; however, the rebuilding of these units has not yet occurred. The contact reported that over 56 percent of the population in the City of Galveston was low-to-moderate income. This information was further supported by a Galveston Needs Assessment performed in 2012 which reported 28 percent very low-income persons, 28 percent low-income persons and 44 percent moderate-income persons living in Galveston County. There is a need for local lenders to partner with the housing authority to provide additional assistance, such as soft second mortgages or Federal Housing Administration 203K loans.

### **Brazoria County**

Brazoria County currently has 50 CT. The county does not have any low-income CT. It has 10 moderate-income CT (20 percent), 23 middle-income CT (46 percent), and 17 upper-income CT (34 percent).

As of the 2010 U.S. Census, the county had a population of 313 thousand. The county seat is Angleton with 19 thousand residents. The largest city is Pearland with a population of 103 thousand. According to the 2010 U.S. Census, Brazoria County had 10 percent of its residents living below the poverty level. The unemployment rate as of 2015 was five percent according to the Texas Workforce Commission. The median housing value in the AA is \$134,258. The U.S. Census reported 67 percent of owner occupied housing and 21 percent of rental occupied units in the AA. The bank had four offices in Brazoria County located in Alvin, Angleton, Lake Jackson, and Pearland. The bank closed the Alvin and Angleton branches on November 1<sup>st</sup>, 2016, leaving two branches in Brazoria County. Cities in Brazoria County are Alvin, Angleton, Bailey's Prairie, Brazoria, City of Hillcrest Village, Clute, Freeport, City of Iowa Colony, Lake Jackson, Manvel, Pearland, Richwood, Surfside Village, Sweeny, Village of Bonney, Village of Jones Creek, and West Columbia.

The largest employers in Brazoria County are Dow Chemical Company, Fluor Corporation, Zachary Group, Alvin ISD, Pearland ISD, Texas Department of Criminal Justice, The Infinity Group, Brazosport ISD, Brock Group, and local government offices.

MNB has a 5.62 percent market share and is ranked 17th in deposit market share among financial institutions in Brazoria county. The largest competitors include Wells Fargo Bank, N.A., Texas DOW Employees, JP Morgan Chase Bank N.A., Compass Bank, Texas Gulf Bank, N.A., and Bank of America, N.A.

### **Harris County**

Harris County currently has 224 CT. The county has 22 low-income CT (10 percent), 85 moderate income CT (38 percent), 57 middle-income CT (25 percent), and 60 upper-income CT (27 percent). As of the 2010 U.S. Census, the CT in Harris County that comprise part of the Houston AA had a population of 1.2 million. The county seat of Harris County and largest city in the county is Houston, Texas with a population of 2.2 million. Harris County has an estimated population of 4.5 million, per the 2015 U.S. Census. According to the 2010 U.S. Census, the CT in Harris County that are included in the Houston AA had 13 percent of its residents living below the poverty level. The 2015 unemployment rate for Harris County was five percent according to the Texas Workforce Commission. The median housing value in the AA is \$138,950. The U.S. Census reported 54 percent of owner occupied housing and 35 percent of rental occupied units in the AA. MNB has five branches located in Harris County located in the Bay Area, Pasadena, West Pearland, Seabrook and West Houston areas. Cities in Harris County are Baytown, Bellaire, Bunker Hill Village, Dear Park, El Lago, Friendswood, Galena Park, Hedwig Village, Hillshire Village, Houston, Humble, Hunters Creek Village, Jacinto City, Jersey Village, Katy, La Porte, League City, Missouri City, Morgan's Point, Nassau Bay, Pasadena, Pearland, Piney Point, Seabrook, Shoreacres, South Houston, Southside Place, Spring Valley Village, Stafford, Taylor Lake Village, Tomball, Waller, Webster, and West University Place.

The Houston-The Woodlands-Sugar Land MSA is the 6<sup>th</sup> largest in the United States. Houston is known as the Energy Capital and is home to more than 5,000 related firms.

The Port of Houston is the tenth largest port in the world. As mentioned above, Houston has the largest medical center in the world, the Texas Medical Center and the Harris County Independent School Districts employs a significant number of persons.

MNB has a 0.38 percent market share and is ranked 88<sup>th</sup> in deposit market share among financial institutions in the county. Local banking competition is intense and includes branches of large national banks, regional banks, small community banks, and non-bank financial institutions. The largest deposit competitors are JP Morgan Chase Bank, N.A., Wells Fargo Bank, N.A., Bank of America, N.A., Compass Bank, Amegy Bank, N.A., Frost Bank and Comerica Bank.

During the evaluation period, the OCC visited with a community contact from a non-profit in Southeast Houston. The contact indicated there was a need for financial education and affordable housing for low and very low-income families. There are programs available through various non-profits, which promote home ownership by budget counseling and rent programs which allow the tenant to buy rehabilitated homes.

### **Fort Bend County**

Fort Bend County has 76 CT. The county does not have any low-income CT. It has 8 moderate income CT (11 percent), 27 middle-income CT (36 percent) and 40 upper-income CT (53 percent). The AA has 1 CT with no income designation. As of the 2010 U.S. Census information, the county had a population of 585 thousand. The county seat is Richmond, Texas with 12 thousand residents. The largest city in Fort Bend County is Sugar Land with a population of 88 thousand. According to the 2010 U.S. Census, Fort Bend County has seven percent of its residents living below the poverty level. The unemployment rate as of 2015 was 4.3 percent according to the Texas Workforce Commission. The median housing value in the AA is \$181,669. The U.S. Census reported 76 percent of owner occupied housing and 18 percent of rental occupied units in the AA. MNB's presence in Fort Bend County is limited to one branch, which results in reduced opportunities for loan originations. The cities located in Fort Bend County are: Arcola, Beasley, Fairchild, Fulshear, Houston, Katy, Kendleton, Meadows Place, Missouri City, Needville, Orchard, Pearland, Pleak, Richmond, Rosenberg, Simonton, Stafford, Sugar Land, Thompson's, and Weston Lakes.

Major employers include the Fort Bend ISD with approximately nine thousand employees and Lamar Consolidated ISD with five thousand employees. Major private employers include Fluor Corporation, Methodist Sugar Land Hospital, Schlumberger Technology Corp, United Parcel Service, Oak Bend Medical Center, Nalco Company Energy Services Division and Frito-Lay North America, Inc.

MNB has a 0.69 percent market share and is ranked 40<sup>th</sup> in deposit market share among financial institutions in the county. Local banking competition is intense and includes branches of large national banks, regional banks, small community banks, and non-bank financial institutions. The largest deposit competitors are Wells Fargo Bank, N.A., JP Morgan Chase Bank, N.A., Bank of America, N.A., Prosperity Bank, Schlumberger Employees Credit Union, Capital One, N.A and Amegy Bank, N.A.

**The Austin AA** is located in Travis County and includes all 218 CT. The bank has one branch in the Austin AA with two percent of its deposit base located in the AA.

### **Travis County**

Travis County has 218 CT. There are 35 low-income CT (16 percent) and 55 moderate-income CT (25 percent) CT, 58 middle-income CT (27 percent) and 67 upper-income CT (31 percent). The AA has three CT with no income designation (one percent). Austin is the state capital of Texas and the county seat with a population of 870 thousand. According to the 2010 U.S. Census, the county population exceeded one million. The AA has 14 percent of its residents living below the poverty level. The unemployment rate as of 2015 was 3.3 percent according to the Texas Workforce Commission. The median housing value in the AA is \$228,291. The U.S. Census reported 48 percent of owner occupied housing and 43 percent of rental occupied units in the AA. These demographics would inhibit a bank from making home mortgage loans in the AA, as nearly half of the housing stock is rental properties. MNB's presence in Austin is limited with only one branch, which results in reduced opportunities for loan originations. During the evaluation period, the branch was relocated from an inaccessible location to downtown Austin. The cities located in Travis County are: Austin, Bee Cave, Briarcliff Village, Cedar Park, Creedmoor, Elgin, Jonestown, Lago Vista, Lakeway, Leander, Manor, Mustang Ridge, Pflugerville, Point Venture, Rollingwood, Round Rock, San Leanna Village, Sunset Valley, The Hills Village, Volente Village, Webberville Village, and West Lake Hills.

Major employers include the Austin ISD, City of Austin, Apple Computers, Dell Technologies, IBM Corporation, Samsung Austin Semiconductor, Seton Healthcare, St David's Healthcare, University of Texas at Austin, Advanced Micro Devices, Applied Materials, Austin Community College, AT&T, and local and government offices.

MNB has a 0.36 percent market share and is ranked 63<sup>rd</sup> in deposit market share among financial institutions in the county. Local banking competition is intense and includes branches of large national banks, regional banks, small community banks, and non-bank financial institutions. The largest deposit competitors are Wells Fargo Bank, N.A., Bank of America, N.A., JP Morgan Chase Bank, N.A., Frost Bank, Compass Bank, Comerica Bank, Texas Capital Bank N.A, United Heritage, Velocity and Capital One, N.A.

During the evaluation period, we met with a city organization to determine the needs of the City of Austin. The contact reported there is an approved city initiative to revitalize the City of Austin with opportunities for private developers and companies to assist in the initiative. The initiative includes providing affordable housing and home revitalization for low-to-moderate income families. The challenge in the area is that most lenders do not make home improvement loans with long term affordability options.

## Conclusions with Respect to Performance Tests

### Lending Test

MNB's performance under the lending test is satisfactory.

### Loan-to-Deposit Ratio

MNB's loan-to-deposit (LTD) ratio is reasonable given the bank's performance context. The quarterly LTD ratio averaged 58.20 percent for the 12 quarters since the previous CRA evaluation, and has continually increased over the review period. The ratio is slightly below the average LTD ratio of 62.17 percent, of similarly situated banks located throughout the Houston and Austin MSAs. The LTD ratio for banks in the peer group ranged from a low of 51.23 percent to a high of 82.76 percent. MNB has maintained a LTD ratio in excess of 60 percent for the last four quarters since March 31, 2016 and the ratio for the most current quarter, prior to the evaluation (12/31/2016), was 73.77 percent.

The bank's LTD ratio continues to improve as indicated by the increase from 54 percent at the previous CRA evaluation. The economy in both MSAs is stable and there is intense competition in the bank's AA. As previously mentioned, MNB has the highest deposit market share in Galveston County at 9.52 percent with lower market share in other counties at 5.62 percent for Brazoria County, 0.69 percent for Ft. Bend County, 0.38 percent for Harris County, and 0.36 percent for Travis County.

### Lending in Assessment Area

The bank originates a majority of loans inside its AA. Overall, 86.69 percent of the bank's HMDA and small business loans were inside the bank's AA. Our analysis included 1,180 loans, which consisted of small business and residential real estate loans originated during the evaluation period. The bank's lending performance is reflected in the table below.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	138	85.19	24	14.81	162	35,703	63.91	20,163	36.09	55,866
Improvement	107	86.99	16	13.01	123	8,424	87.34	1,221	12.66	9,645
Refinance	53	84.13	10	15.87	63	11,995	84.69	2,162	15.31	14,117
Small Business loans	725	87.14	107	12.86	832	120,150	81.02	28,147	18.98	148,297
<b>Totals</b>	<b>1,023</b>	<b>86.69</b>	<b>157</b>	<b>13.31</b>	<b>1,180</b>	<b>176,272</b>	<b>77.32</b>	<b>51,693</b>	<b>22.68</b>	<b>227,965</b>

*Source: HMDA and Small Business loans*

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

Overall, the level of lending to borrowers of different incomes and to businesses of different sizes is reasonable compared to census characteristics. This factor was given more weight in the overall rating, as business loans represents 42 percent of the total loan portfolio by number of loans and 65 percent by dollar amount. The bank originated 96 percent of its small business loans by number and dollar amount in the Houston AA.

Lending to businesses of different sizes in the Houston AA reflects reasonable penetration to businesses with revenues of \$1 million or less. The following table reflects the performance during the evaluation period.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Houston AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	86.66	4.62	8.73	100%
% of Bank Loans in AA by #	53.80	42.75	3.44	100%
% of Bank Loans in AA by \$	39.12	56.90	3.98	100%

Source: Loan data collected by bank; Dun and Bradstreet data.

Lending to businesses of different sizes in the Austin AA reflects reasonable penetration to businesses with revenues of \$1 million or less. The bank originated four percent of its small business loans by number and dollar amount in the Austin AA. The following table reflects the performance during the evaluation period.

<b>Table 2A - Borrower Distribution of Loans to Businesses in Austin AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	85.01	5.27	9.72	100%
% of Bank Loans in AA by #	57.14	28.57	14.29	100%
% of Bank Loans in AA by \$	32.58	38.20	29.22	100%

Source: Loan data collected by bank; Dun and Bradstreet data.

## Residential Real Estate Lending

The distribution of residential real estate loans reflects reasonable penetration among borrowers of different incomes considering the demographics and bank products. Residential real estate loans represent 12 percent by number of loans and 28 percent by dollar amount of the loan portfolio. We analyzed originations for home purchase, home improvement, and refinance loans to the percentage of AA families based on 2010 U.S. Census information.

Houston AA

The bank’s performance reflects reasonable penetration to low-and moderate-income (LMI) borrowers for residential real estate loans. In the Houston AA, MNB originated 173 residential real estate loans. Of these, 50 percent were home improvement loans, 32 percent were home purchase and 18 percent were home refinance. The 2016 HUD MSA annual median family income for the Houston AA is \$68,000. The bank originated 86 percent of its HMDA reportable loans by number in the Houston AA. The percentage of bank loans to LMI borrowers is slightly below the characteristics of the Houston AA; however, there is no absence of lending to LMI borrowers. The bank had stronger penetration levels to moderate-income borrowers. The bank is meeting the needs of low-and-moderate income families in the Houston AA. The bank is headquartered in Galveston. As previously indicated, 56.3 percent of the housing units are rental properties in Galveston County. There is also a 1.46 percent vacancy rate for owner-occupied housing in Galveston County. These demographics greatly inhibit a bank’s ability to make home mortgage loans in the area. Affordable housing for low-and-moderate income families was identified as a community development need during our community contact with a local city official. The median housing cost for the Houston AA is \$147,852.

The bank’s performance in the Houston AA is depicted in the following table.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Houston AA</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
Purchase	20.68	3.64	16.09	12.73	18.18	9.09	45.05	72.73
Improvement	20.68	17.44	16.09	13.95	18.18	6.98	45.05	59.30
Refinance	20.68	5.90	16.09	9.18	18.18	4.78	45.05	74.14

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

Austin AA

In the Austin AA, MNB originated 29 residential real estate loans. Of these, 45 percent were home improvement loans, 41 percent were home purchase and 14 percent were home refinance. The updated 2016 HUD MSA median family income for the Austin AA is \$77,800. The bank originated 14 percent of its HMDA reportable loans by number in the Austin AA.

The bank’s performance reflects reasonable penetration to moderate-income borrowers for residential home mortgage loans. The bank did not make any loans to low-income borrowers for residential real estate loans. We reviewed these loans collectively for the Austin AA, as there were less than 20 loans in each category. There were 12 home purchase, 13 home improvement and four home refinance. In the Austin AA, the median housing cost is \$228,291.

It would be difficult for a low-income borrower to qualify for a loan of this size. The U.S. Census reported 48 percent of owner occupied housing and 43 percent of rental occupied units in the AA. These demographics would inhibit a bank from making residential real estate loans in the AA, as a little less than half of the housing stock are rental properties.

The bank’s performance in the Austin AA is depicted in the following table.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Austin AA</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
Residential RE loans	24.61	0.00	16.96	10.34	17.60	13.79	40.83	75.86

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

### Geographic Distribution of Loans

Overall, the geographic distribution of loans to businesses is excellent in both of the bank’s AAs. Geographic distribution of loans to businesses significantly exceeds the characteristics of the Houston AA for loan originations in low-and-moderate income CT. The following table reflects the bank’s performance during the evaluation period:

<b>Table 3A - Geographic Distribution of Loans to Businesses in Houston AA</b>								
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
Small Business loans	3.63	8.18	19.83	23.96	28.91	31.56	47.63	36.30

Source: Small Business data collected by bank; D & B data.

Geographic distribution of loans to businesses significantly exceeds the characteristics of the Austin AA for loan originations in the low-income CT. The bank has reasonable dispersion in moderate-income CT for loans to businesses. The following table reflects the bank’s performance during the evaluation period:

<b>Table 3A - Geographic Distribution of Loans to Businesses in Austin AA</b>								
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
Small Business loans	8.88	14.29	16.64	10.71	22.52	25.00	51.84	50.00

Source: Small Business data collected by bank; D & B data.

### Residential Real Estate Lending

The bank has reasonable dispersion in the Houston AA and poor dispersion in the Austin AA for residential real estate loans.

We analyzed 2014-2016 HMDA data, which consisted of 173 residential real estate loans in the Houston AA and 29 residential real estate loans in the Austin AA.

The geographic distribution of loans for residential home purchase loans in the Houston AA is excellent for low-income census tracts, while the dispersion for refinance loans is poor. The bank had reasonable performance in the moderate-income census tracts for all three residential real estate products. Purchase and home improvement loans had characteristics near to the demographic comparator for all CT income levels. Again, the bank is responsive to the identified needs of the AA, which was affordable housing for low-and-moderate income families. The bank’s performance is depicted in the following table.

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
Purchase	2.42	10.91	19.32	18.18	31.84	34.55	46.42	36.36
Improvement	2.42	1.16	19.32	16.28	31.84	33.72	46.42	48.84
Refinance	2.42	0.00	19.32	12.50	31.84	15.63	46.42	71.88

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

The geographic distribution of loans for residential home purchase loans in the Austin AA is poor. The bank had 29 loans originated in this AA. Of these, one borrower was located in a low-income tract and two borrowers were located in a moderate-income census tract. As previously stated, the Austin AA comprises only 1.68 percent of the bank’s total deposits. The one branch was moved mid-way through the evaluation period from a limited visibility location to downtown Austin. The following table reflects the bank’s performance in the Austin AA:

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
Residential RE Loans	7.56	3.45	19.66	6.90	26.78	20.69	45.99	68.97

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

### Responses to Complaints

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

## **COMMUNITY DEVELOPMENT TEST**

MNB's performance under the CD test is rated outstanding considering the level of CD loans and it reflects excellent responsiveness to the needs of its AA. We qualified 23 CD loans totaling \$33.9 million and 85 investments and donations totaling \$3.2 million. MNB officers and employees also provided over two thousand hours of CD services.

### **Number and Amount of Community Development Loans**

The bank's performance under the CD loan test is excellent. MNB originated or refinanced 23 loans totaling \$33.9 million. There were eleven economic development loans totaling \$23.5 million, three affordable housing loans totaling \$693 thousand and nine community services loans totaling \$9.8 million.

#### **Houston AA**

MNB's performance in the Houston AA is excellent. During the review period, MNB originated four economic development loans totaling \$11.8 million that created jobs, two affordable housing loans to two multifamily units, and one community service loan to a non-profit organization that serves child welfare agencies.

#### **Austin AA**

MNB's performance in the Austin AA is excellent. During the review period, MNB originated two economic development loans totaling \$3.75 million and one \$2.6 million community service loan to an organization that provides services to LMI individuals for rent, utilities, dental, and minor home repairs.

### **Number and Amount of Qualified Investments**

MNB's performance under the investment test is adequate. During the review period, there were five investments and 80 donations totaling \$3.2 million that promote economic development, affordable housing, and community services. There were eight investments and donations in the Austin AA totaling \$1.9 million, 69 investments and donations in the Houston AA totaling \$683 thousand and three broader statewide investments and donations totaling \$548 thousand.

MNB held five investments totaling \$3.1 million, which included two current period and three prior period investments. During the review period, management purchased a \$1 million affordable housing bond in the Austin AA and made a \$1 million statewide investment in a small business investment corporation (SBIC) that supports economic development.

Additionally, there were three prior period investments with current balances totaling \$1.5 million consisting of two SBICs with outstanding balances of \$935 thousand and one affordable housing mortgage back security with an outstanding balance of \$575 thousand. There were also 80 donations to 45 organizations totaling \$119 thousand for community services activities.

#### Houston AA

MNB' performance in the Houston AA is adequate. The bank held one prior period mortgage backed security (MBS) investment with an outstanding balance of \$575 thousand and made 68 donations totaling \$107 thousand. The MBS was an affordable housing investment and all of the donations were for community services.

#### Austin AA

MNB's performance in the Austin AA is excellent. Investments include two prior period investments to two SBICs totaling \$935 thousand and a \$1 million current period affordable housing MBS for LMI multifamily units. Additionally, there were five donations totaling \$10.5 thousand.

#### Broader Statewide

During the evaluation period, management committed to a \$1 million investment of which \$454 thousand was funded to a SBIC that promotes economic development and two donations totaling \$1.8 thousand.

The purpose of the SBIC funds is to invest in debt and/or equity securities of companies to help businesses grow as well as retain and increase job opportunities in businesses located within the bank's AA. Additionally, there were two donations totaling \$1.8 thousand for grants for temporary housing and home repairs, low-cost loans to cover uninsured property losses, childcare, medical, dental expenses and other programs to help individuals and business owners recover from the effects of disasters. For one of the donations, MNB responded to a major disaster with a donation of \$1,350 to match the funds raised by bank employees for a total donation of \$2,700. Another notable donation was to a flood relief program in response to flooding in Houston and Harris County in May 2015. During the floods, approximately 3,015 Harris County homes experienced some form of damage, and according to Texas transportation officials, flooding caused at least \$27 million of infrastructure damage. The FEMA approved federal disaster relief funding for Harris County and 30 other Texas counties, on May 30, 2015.

#### **Extent to Which the Bank Provides Community Development Services**

MNB's performance in providing services for community development is excellent. We qualified 2,062 hours of services performed by bank officers and employees. During the review period, 29 officers and employees provided services to 26 organizations in the Houston AA and Austin AA.

Bank officers and employees served as board members, treasurers, provided financial literacy instructors and also prepared tax returns for LMI individuals.

In the Houston AA, 25 bank officers and employees provided services to 24 organizations totaling 2,004 hours for community services, affordable housing, and economic development. Notable board member organizations are an advocacy organization that provide services to child victims and their non-offending family members; an organization that partners with Galveston County to provide small business workshops and facilitate business relocations. Several bank officers and employees performed as board and committee members to an organization that strive to increase educational opportunities for children where 75 percent of the students are economically disadvantaged or at risk.

In the Austin AA, four employees provided financial expertise to two organizations of which one of the organizations provided financial literacy mentoring to children in a school where 94 percent of the students are eligible for free and reduced lunch programs. The other organization provided tax preparation to LMI individuals.

### **Responsiveness to Community Development Needs**

The level of lending and CD efforts demonstrates satisfactory responsiveness to the needs in the AAs. MNB has 79 percent of its deposits in Galveston County. The City of Galveston Plan has initiatives to support development of new businesses and industries. During the review period, MNB provided CD loans to businesses for economic development that created jobs.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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