



## PUBLIC DISCLOSURE

August 01, 2016

## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Kleberg Bank, National Association  
Charter Number 12968

100 East Kleberg Avenue, Kingsville, TX 78364

Office of the Comptroller of the Currency  
San Antonio South Field Office  
10001 Reunion Place, Suite 250, San Antonio, TX 78216-4133

**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: Kleberg Bank, NA (KBNA) is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

- The bank's loan-to-deposit (LTD) ratio is satisfactory. The LTD ratio is reasonable in relation to other institutions in the Assessment Area (AA).
- Lending in the AA is satisfactory as a majority of the bank's loans are inside the bank's AA.
- The bank's loan portfolio overall reflects a reasonable penetration of residential and consumer loans among families of various income levels.
- The geographic distribution of the bank's residential and consumer loans within the AAs reflects a reasonable dispersion throughout the AAs.
- KBNA's community development (CD) performance demonstrates adequate responsiveness to CD needs in its AAs, through CD loans, investments, and services.

## **Scope of Examination**

The scope of the examination was to evaluate KBNA's performance under the Community Reinvestment Act using Intermediate Small Bank (ISB) examination procedures. The procedures include a Lending Test and CD Test. The Lending Test evaluates the bank's record of meeting the identified credit needs of its AA through its lending activities. The CD Test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments and CD services.

The examination focused on the bank's primary loan products, which were consumer and residential real estate loans originated or purchased during the evaluation period. The review included all residential real estate loans reported in the bank's Home Mortgage Disclosure Act - Loan Application Register (HMDA-LAR). The evaluation period we reviewed was January 1, 2012 through December 31, 2015. A data integrity review of the HMDA-LAR was conducted prior to this CRA examination. The review could not confirm the reliability of the information. We instructed management to scrub HMDA data for years 2014 and 2015 prior to our arrival for the CRA examination. We selected a random sample of 30 consumer loans the bank originated or purchased during the evaluation period in order to determine lending inside the AA, and we sampled 20 consumer loans per AA in determining the reasonableness of borrower distribution and geographic distribution. The evaluation period for the CD test covers the period since the prior Performance Evaluation (October 9, 2012) and the commencement date of this evaluation (August 1, 2016). We verified CD loans, qualified investments, and CD services submitted by management met the regulatory definition for CD and excluded any that did not meet the definition.

## Description of Institution

KBNA is an intrastate bank headquartered in Kingsville, Texas, which is located approximately 50 miles southwest of Corpus Christi, Texas. KBNA is wholly owned by Kleberg Delaware, Inc., a one-bank holding company. The bank owns and operates five branch facilities, two drive-in facilities, and fifteen image-enabled automated teller machines (ATMs). In addition to its main bank headquarters in Kingsville, the bank has a branch located within the local Walmart Supercenter and a drive-in facility. There are an additional four branches in Corpus Christi. Since the prior performance evaluation (PE), the bank has closed its five branches previously located in HEB Food Stores and opened a full-service branch in Corpus Christi that serves as an operations center. Branches are located in areas accessible to customers in the bank's AAs. Lobby and drive-thru hours are set by location to fit the needs of the community's customers. All branches are open Monday through Friday 9 a.m. to 6 p.m. with the exception of the main office in Kingsville and the operations center in Corpus Christi; they close at 5 p.m. All branches with the exception of operations center have drive-in lanes that are open on Saturdays from 8 a.m. to 1 p.m. ATMs are available at all branch facilities and are accessible 24 hours, 7 days a week.

KBNA offers traditional loan and deposit products and other services to consumers and businesses in its community, including personal secured and unsecured consumer loans and a variety of fixed- and adjustable-rate loan programs, including conventional, FHA, and VA loans for the purchase, refinance and home improvement. All long-term fixed rate mortgage loans are sold into the secondary market; only short-term (3 to 5 years) adjustable-rate mortgage loans are held in portfolio. The sale of long-term fixed-rate mortgages is largely for the bank to manage and control interest-rate risk. The bank has sold an average of \$23 million annually into the secondary market over the evaluation period. For mortgage loan customers that generally do not meet the strict underwriting standards of the secondary market, the bank offers shorter-term financing based on in-house underwriting guidelines. In-house mortgage terms, however, afford customers shorter amortization periods and slightly higher rates. Secured and unsecured loans are available for businesses for working capital and equipment, in addition to interim construction loans for residential, commercial, and industrial properties. The bank offers traditional deposit accounts for personal and business purposes, and provides 24-hour account access via its on-line banking system to facilitate ACH and cash management services. Other services available to the community include mobile-accessed remote deposit capture, night depository, and 24 hour voice banking. The bank's phone center is available Monday through Friday from 7:30 a.m. to 6 p.m. and Saturdays 8 a.m. to 1 p.m. for telephone bankers to answer questions regarding customer deposit and loan accounts.

As of June 30, 2016, the bank reported assets of \$482 million and loans totaling \$264 million, or 55 percent of total assets. The origination of consumer, residential real estate, and commercial loans are KBNA's primary business focus. As depicted in the following table, consumer loans and residential real estate loans account for 27 percent and 22 percent of net loans as of June 30, 2016. Indirect dealer auto loans represent a significant majority of the bank's \$71 million consumer loan portfolio. Management

indicated the bank faces increased competition from local credit unions for new and used autos. Low- and moderate-income households generally find it difficult to qualify for new cars under indirect dealer auto financing programs, and resort to local independent used car lots that typically finance but at much costlier rates and terms. Commercial (business) loans are the third largest loan category at 11 percent. We will evaluate the bank’s performance based on the larger portfolios, consumer and residential real estate loans.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>Percentage (%)</b>
Consumer loans	71,115	26.90
Residential Real Estate	56,882	21.51
Commercial Real Estate	60,139	22.74
Commercial & Industrial (Business) Loans	30,023	11.35
Construction/Land Development	20,348	7.70
Multi-Family RE	12,537	4.74
Agricultural loans	11,367	4.30
Farmland RE	2,009	0.76
Total	264,420	100%

Source: Consolidated Reports of Condition as of June 30, 2016

Based on its financial condition, the local economy, product offerings, competition, and prior performance, KBNA has the ability to meet the various credit needs in its AAs. No legal impediments or other factors hinder its ability to provide credit. At the prior CRA examination, performed October 9, 2012, the bank’s CRA rating was “Satisfactory”.

## **Description of Assessment Area(s)**

KBNA’s AAs include Kleberg County (a non-metropolitan area) and Nueces County (a metropolitan area). The two counties are located adjacent to each other. We evaluated performance separately for each county because Nueces County is part of the metropolitan statistical area (Corpus Christi MSA), and there being significant differences in demographic information.

### **FULL SCOPE ASSESSMENT AREAS:**

#### **Kleberg County Assessment Area**

The Kleberg County AA includes the cities of Ricardo, Rivera, Loyola Beach, and Kingsville, which is the county’s largest city and county seat, located approximately 50 miles southwest of Corpus Christi, Texas. The Kleberg County AA consists of five census tracts (CTs), two moderate-income, two middle-income, and one upper-income. There are no low-income CTs in the AA. According to the 2015 Federal Financial Institution’s Examination Council (FFIEC) report, the bank’s two middle-income CTs are classified “Distressed” due to poverty levels. The King Ranch occupies a vast majority of the AA’s upper-income CT, therefore, lending opportunities in this CT are limited.

The bank has properly defined its AA in accordance with the technical requirements of the CRA regulation. The AA consists of whole CTs, does not arbitrarily exclude low- and moderate-income (LMI) CTs, and includes the CTs where the bank branches are located. The AA meets requirements of the regulation and does not reflect illegal discrimination. All of KBNA’s banking and ATM facilities are located within the AA. The main office and drive-in are located in moderate-income CTs while the Walmart branch is in a middle-income CT.

The following table summarizes the demographic data for the Kleberg County AA.

<b>Demographic Information for the Kleberg County AA</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts (CT)/BNAs)	5	0.00	40.00	40.00	20.00	0.00
Population by Geography	32,061	0.00	41.29	41.23	17.47	0.00
Owner-Occupied Housing by Geography	6,524	0.00	34.99	39.06	25.95	0.00
Business by Geography	1,532	0.00	32.18	49.28	18.54	0.00
Family Distribution by Income Level	7,386	26.77	16.14	18.21	38.88	0.00
Households by Geography	10,924	30.68	14.02	12.91	42.38	0.00
Median Family Income		\$46,014	Median Housing Value		\$76,592	
FFIEC Updated MSA Median Family Income		\$52,800	Unemployment Rate		9.08% (2010 Census)	
Households Below Poverty Level		25.49%			6.70% (April 2016 BLS)	

Source: 2010 US Census, 2015 FFIEC updated MFI, and Bureau of Labor Statistics

AA population is relatively stable having increased a marginal 1.6 percent, from a 2000 Census population of 31,549 to a 2010 Census population of 32,061. The economy remains stable. The impact of depressed energy prices and the slowdown of oil and gas activities related to the Eagle Ford Shale play have been low to moderate. However, unemployment rates have risen in Kleberg County from a low of 4.5 percent in December 2014 to 6.7 percent as of April 2016. This is above state and national averages of 4.2 percent and 5 percent, respectively.

Principal industries in the AA include education, health services, retail trade, and defense. Major employers include the Kingsville Naval Air Station, Texas A&M University at Kingsville, city and county government offices, U.S. Customs and Border Patrol, Christus Sphon Kleberg Hospital and local independent school districts. Other employers include Walmart, the King Ranch, and the Celanese Corporation.

In evaluating the borrower distribution of home loans in the AA, we considered the impact from above average poverty levels, unemployment, average age of housing stock and median housing value. Poverty levels in the AA are higher than national and

state averages. 2010 U.S. Census data shows that 25.5 percent of AA households and 18.1 percent of AA families are below the poverty level. This compares less favorably to national and state averages of 15.3 percent and 17.9 percent, respectively. 2010 U.S. Census data showed unemployment in the AA at 9.1 percent. While there are no low-income CTs in the AA, the high average median age of 53 years for housing stock in moderate-income CTs combined with a median housing value of \$58,458, limits lending opportunities. Of the total 12,799 housing units in the AA, only 6,525 or about one-half are owner-occupied, and only about one-third of those are in moderate-income CTs. Given moderate-income geographies account for 40 percent of the CTs in the AA, it is important to note that about 43 percent of AA families have annual incomes that place them at low- and moderate-income levels.

There is a fair amount of competition for loans and deposits in the AA from branches of large national and regional banks, and smaller state-chartered community banks although many of their branches are located outside the AA. KBNA is the only bank chartered and headquartered in the AA. The FDIC Market Share Report for June 30, 2015 shows six banking institutions operating 10 offices in the AA. KBNA ranks first among the group with three offices and a deposit market share of 58 percent. First Community Bank ranks second in the AA operating one office with a 15 percent deposit market share, and Wells Fargo Bank ranks third with a 13 percent deposit market share operating one office. Prosperity Bank is a large regional bank operating one office in the AA; it claims a 6 percent deposit market share. There is strong competition for consumer loans from several credit unions operating in the AA, most notably the Navy Army Community Credit Union.

A community contact interview conducted during this evaluation identified financial technical assistance from financial institutions as a need of the community through leadership roles as board members, directors, officers, or committee chairpersons to organizations whose primary purpose is community development. Other needs include financial literacy education, scholarships, grants, and donations for the benefit of LMI individuals. There are opportunities for community development projects; however, much of these funding needs are met by government grants. The contact related that financial institutions are involved in the community and have a good reputation of working with the community.

Management conveyed that construction of single-family homes in the AA remains a need though it is difficult to attract homebuilders to the area. There is a need for more moderate-income and upper-income housing. Kingsville is very much a bedroom community with many commuting to and from the Corpus Christi area. Stricter industry underwriting standards can make it difficult for LMI individuals to qualify for home purchase loans and refinance homes.

### **Nueces County Assessment Area**

The Nueces County AA includes the cities of Robstown, Port Aransas, Bishop, North San Pedro, and Corpus Christi, the largest city and county seat. The AA consists of 81 CTs, nine low-income, 20 moderate-income, 26 middle-income, two upper-income, and two CTs that are not income-classified. Lending opportunities are limited in these two

not income-classified CTs. The Corpus Christi campus of Texas A&M University occupies the entire area of one, and Corpus Christi International Airport occupies the other. One moderate-income CT consists entirely of the Naval Air Base, which has no owner-occupied housing units. According to the 2015 FFIEC report, none of Nueces County's middle-income CTs are classified as either distressed or under-served. The bank has properly defined its AA in accordance with the technical requirements of the CRA regulation. The AA consists of whole CTs, does not arbitrarily exclude low- and moderate-income CTs, and includes the CTs where the bank branches and deposit-taking ATMs are located. The AA does not reflect illegal discrimination.

Demographics and economic characteristics for the Nueces County AA are reflected in the table below.

<b>Demographic Information for the Nueces County AA</b>						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts (CT)/BNAs)	81	11.11	24.69	32.10	29.63	2.47
Population by Geography	340,223	12.10	22.69	35.15	30.69	0.38
Owner-Occupied Housing by Geography	74,556	8.26	19.96	35.18	36.59	0.00
Business by Geography	22,988	16.95	18.19	33.31	31.26	2.47
Family Distribution by Income Level	82,670	24.72	16.24	17.38	41.66	0.00
Households by Geography	121,056	25.20	16.14	16.17	42.48	0.00
Median Family Income		\$56,660	Median Housing Value		\$115,645	
FFIEC Updated MSA Median Family Income		\$58,800	Unemployment Rate		7.8% (2010 Census)	
Households Below Poverty Level		17.56%			5.1% (April 2016 BLS)	

*NA category consists of geographies not assigned an income classification  
Source: 2010 US Census, 2015 FFIEC updated MFI, and Bureau of Labor Statistics*

The population has experienced modest growth since the 2000 Census, increasing from 313,645 to a 2010 Census population of 340,223. The economy has remained stable due to diversified industries and despite depressed energy prices and a slowdown of oil and gas activities related to the Eagle Ford Shale play. According to the Bureau of Labor Statistics, unemployment has risen in Nueces County from a low of 4.4 percent as of December 2014 to 5.1 percent as of April 2016.

Most common industries in the AA include construction, manufacturing, health care and social assistance, retail trade, food service, and educational services. Major employers include the Naval Air Station, Corpus Christi Army Depot, Texas A&M University, Del Mar College, HEB Food Stores, city and county government offices, Christus Sphon Health Systems, and local independent school districts. Other employers include Celanese Corporation, Citgo Petroleum, and Flint Hills Resources.

In evaluating the borrower distribution of home loans in the AA, we considered the impact from above average poverty levels, unemployment, average age of housing stock and median housing value. Poverty levels in the AA are higher than national and state averages. Based on 2010 U.S. Census Data, 17.6 percent of AA households and 15.1 percent of AA families are below the poverty level. 2010 U.S. Census data showed unemployment in the AA at 7.8 percent. High median ages of 57 and 52 years for owner-occupied housing stock in low- and moderate-income CTs, combined with median housing value ranges of \$57,979 to \$63,000, limits lending opportunities. Of a total 138,289 housing units in the AA, 74,556 units or 54 percent are owner-occupied, however, lending opportunities in low-and moderate-income CTs are further limited by the overall stock of owner-occupied units, 8 percent in low-income CTs and 20 percent in moderate-income CTs. While LMI geographies account for 36 percent of AA CTs, about 41 percent of AA families have annual incomes that place them in LMI categories.

The AA is a competitive banking environment filled with large national and regional banks, community banks, and credit unions. The FDIC market share report as of June 30, 2015, indicates that 16 institutions operate 83 branches within the bank's AA. KBNA ranks 8th among the total group of banks with a deposit market share of 3 percent, which at that time operated 8 branches. Frost Bank with 8 branches in the AA ranks first with a 26 percent deposit market share, and American Bank, N.A., operating 7 branches ranks second with an 18 percent deposit market share. The large national banks, Wells Fargo and Bank of America, operate 10 and 5 branches, respectively, and their respective deposit market share is 16 percent and 12 percent. Additionally, there are several credit unions operating in the AA that compete highly for consumer loan products, particularly indirect auto loans.

A community contact interview conducted during this evaluation identified moderate-income housing as a primary economic development need in the AA. The contact indicated that already high land cost is amplified by the cost of developing the properties to meet wind-code requirements of the region. These type expenses hinder the ability of developers to meet demands for more moderate-income housing. Other needs included financial expertise and leadership on boards and committees of non-profit organizations that work to assist LMI geographies, and the sponsorship of youth engagement. While some affordable housing projects are available, opportunities are few and many times funded by government grants.

The contact further indicated that local community banks and credit unions have been active in meeting community needs. Many bank employees volunteer on non-profit boards or participate in the non-profits directly. When projects need financing or sponsorship, the local community banks are willing to at least discuss it and try to find a way to be involved. The larger banks also are willing to be involved, but historically have been less responsive and less likely to initiate projects.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank's performance under the lending test is Satisfactory. KBNA's quarterly average loan-to-deposit ratio is reasonable as a majority of the bank's residential and consumer loans were originated in the AA. The distribution of these loans by borrower income level and by geography reflects reasonable penetration and dispersion.

#### Loan-to-Deposit Ratio

<b>Loan-to-Deposit Ratios</b>			
<b>Financial Institutions</b>	<b>County</b>	<b>Total Assets (in 000's) (As of 03/31/2016)</b>	<b>Average Loan-to-Deposit Ratio</b>
Kleberg Bank, National Association	Kleberg	\$502,292	61.06%
First Community Bank	Nueces	\$406,343	78.91%
International Bank of Commerce	Zapata	\$525,950	28.47%
Charter Bank	Nueces	\$270,502	56.23%
Valuebank Texas	Nueces	\$210,287	65.73%
Texas Champion Bank	Nueces	\$381,606	84.76%

The table above reflects the quarterly average LTD ratios of KBNA and other institutions operating in the AA for the quarters beginning September 30, 2012 through March 31, 2016. KBNA's LTD ratio is reasonable and meets the standards for satisfactory performance given the bank's size, financial condition, economic condition, lending opportunities in the AA, and considering its \$23 million average annual secondary market sales activity. The bank averaged a quarterly ratio of 61.06 percent over the 15-quarter period, with a high of 64.78 percent and low of 55.67 percent. Other institutions in the AA averaged a quarterly LTD ratio of 62.82 percent over the same period.

We did not identify any similarly situated institutions in the AA. KBNA is the only bank headquartered in the area (four others in Corpus Christi and one in Zapata). Two of the five banks listed in the LTD report above, operate in the AA but do not have similar product mixes. KBNA is considerably more consumer loan focused than the LTD report peer banks, with consumer loans making up 27 percent of loans, compared to 9 percent for its next closest LTD report peer. KBNA also has fewer real estate loans in its portfolio than LTD report peers, 58 percent compared with 67 percent for its next closest LTD report peer and 75 percent in peer average. The bank sells an average of \$23 million of mortgages into the secondary market annually; only one other bank in the AA engages in mortgage banking.

**Lending in Assessment Area**

A majority of the residential and consumer loans originated during the evaluation period were inside the bank’s AA. KBNA meets the standard for satisfactory performance for lending in the AA. Table 1 below indicates that 83 percent in number and 76 percent in total dollars of residential loans and consumer loans sampled originated inside the AA.

<b>Table 1 - Lending in Combined AAs</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	570	82.01	125	17.99	695	93,754	74.60	31,917	25.40	125,671
Home Improvement	50	94.34	3	5.66	53	4,740	85.67	793	14.33	5,533
Home Refinance	111	86.05	18	13.95	129	19,574	79.30	5,111	20.70	24,685
Consumer	19	63.33	11	36.67	30	305	45.78	362	54.22	667
<b>Total</b>	<b>750</b>	<b>82.69</b>	<b>157</b>	<b>17.31</b>	<b>907</b>	<b>118,373</b>	<b>75.61</b>	<b>38,183</b>	<b>24.39</b>	<b>156,556</b>

*Source: Data reported under HMDA; Consumer Loan Sample.*

**Lending to Borrowers of Different Incomes**

Overall, KBNA’s lending activities show a reasonable penetration among borrowers of different income levels given the performance context. This conclusion is based on an analysis of sampled consumer loans (40) and residential real estate loans (731) originated in the AAs during the evaluation period. In our analysis of residential real estate loans, we compared the bank’s distribution to LMI borrowers to the income distribution of individuals and families within the AAs, utilizing the FFIEC median family income. For consumer loans, we compared the bank’s distribution of lending to LMI borrowers in relation to the percentage of low- and moderate-income households within the AAs.

**Kleberg County Assessment Area**

The borrower distribution of loans in the Kleberg County AA is considered reasonable when considering performance context and lending opportunity limits.

Residential Loans

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in the Kleberg County 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
Home Purchase	26.77	3.60	16.14	6.31	18.21	14.41	38.88	75.68
Home Improvement	26.77	0.00	16.14	20.83	18.21	20.83	38.88	58.33
Home Refinance	26.77	3.85	16.14	7.69	18.21	7.69	38.88	80.77

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

As shown in Table 2 above, in each loan category, the bank’s residential real estate lending to LMI borrowers lags the percentage of AA families in those income levels. The distribution of home purchase and refinance to moderate-income borrowers is below demographic comparators but still considered reasonable when considering performance context factors such as the advanced age of housing stock, median housing values, above average poverty levels, and unemployment. In addition, low-income individuals typically have difficulty qualifying for home loans, thus a reduced level of lending to this demographic can be expected. There is also a fair population of military personnel and college students that fall into LMI categories, which further limits lending opportunity. Housing for military personnel and college students is typically short-term or temporary.

Consumer Loans

<b>Table 2B - Borrower Distribution of Consumer Loans in the Kleberg County AA</b>								
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	30.68	4.76	14.02	9.52	12.91	23.81	42.38	61.90

Source: Consumer Loan Sample; U.S. Census data.

The distribution of consumer loans to borrowers of different income levels reflects poor penetration although this is reasonable when considering performance context factors such as above average poverty and unemployment in the AA. As illustrated in Table 2B above, the percentage of loans originated to moderate-income households (9.52 percent) is slightly below the percentage of AA moderate-income households (14.02 percent). The percentage of consumer loans to low-income borrowers is significantly lower (4.76 percent) than the percentage of low-income households in the AA (30.68

percent). Additionally, a substantial majority of the bank’s consumer loans is indirect consumer automobile loans derived from new car dealers in the AA. New car pricing is generally out of the reach of LMI individuals, and qualifying for indirect financing programs is typically more difficult than local independent used car lots. Additionally, management has seen increased competition for consumer loans, primarily from credit unions.

**Nueces County Assessment Area**

The borrower distribution of loans in the Nueces County AA is reasonable and meets the standard for satisfactory performance. Distribution of residential and consumer loans to borrowers of different income levels reflects reasonable penetration and percentages are comparable to demographic comparators. Loans for moderate-income housing was identified as a credit need in this AA.

**Residential Loans**

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	24.72	2.90	16.24	12.95	17.38	18.97	41.66	65.18
Home Improvement	24.72	9.52	16.24	4.76	17.38	9.52	41.66	76.19
Home Refinance	24.72	1.23	16.24	11.11	17.38	18.52	41.66	69.14

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

As illustrated in Table 2 above, the distribution of residential real estate loans across income CTs is reasonable although penetration is poor for low-income level borrowers and generally reasonable for moderate-income borrowers. The percentage of residential loans originated to low-income borrowers, in all loan categories, lags the demographic comparators. However, this performance is seen as reasonable when considering performance context factors such as the advanced and aging housing stock, median housing values, above average poverty levels, and unemployment in the AA. Low-income individuals typically find it difficult to qualify for home loans, thus a reduced level of lending to this demographic can be expected. KBNA also faces strong competition from branches, large national and regional banks, community banks and mortgage companies. The distribution of home loans to moderate-income families is seen as generally reasonable because home purchase and home refinance lending to moderate-income borrowers is only slightly below the percentages of AA families in this income level. We gave more weight to the bank’s performance in home purchase lending to moderate-income borrowers as the number of home purchase loans accounted for 81 percent of all residential lending by the bank during the evaluation period. Per our discussions with a community contact during the review, moderate-income housing is a significant need in Nueces County.

Consumer Loans

<b>Table 2B - Borrower Distribution of Consumer Loans in the Nueces County AA</b>								
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	25.20	9.52	16.14	28.57	16.17	14.29	42.48	47.62

Source: Consumer Loan Sample; U.S. Census data.

KBNA’s distribution of consumer loans to borrowers of different incomes levels indicates reasonable penetration in the Nueces County AA. Although penetration to low-income borrowers is poor as indicated in Table 2B above, the bank performance significantly exceeds standards with an excellent penetration to moderate-income borrowers in the AA. Approximately 41 percent of the AA is LMI households, and 38 percent of the bank’s consumer loans were to this income category. Mitigating the poor penetration of consumer loans to low-income borrowers in this AA are performance context factors such as above average poverty, unemployment, and a substantial majority of the bank’s consumer loans are indirect consumer automobile loans derived from new car dealers. New car pricing is generally out of reach for LMI individuals, and qualifying for indirect financing programs is typically more difficult than local independent used car lots. Additionally, management has seen increased competition for consumer loans, primarily from credit unions.

**Geographic Distribution of Loans**

KBNA’s overall geographic dispersion of loans in its AAs is reasonable and meets the standard for satisfactory performance. Additionally, the two middle-income CTs in the Kleberg County AA are designated distressed CTs due to poverty levels.

**Kleberg County Assessment Area**

KBNA’s geographic dispersion of loans across CTs of all income levels in the Kleberg County AA is reasonable and meets the standard for satisfactory performance.

Residential Loans

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in the Kleberg County AA</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	0.00	0.00	34.99	21.05	39.06	57.89	25.95	21.05
Home Improvement	0.00	0.00	34.99	33.33	39.06	48.15	25.95	18.52
Home Refinance	0.00	0.00	34.99	26.92	39.06	42.31	25.95	30.77

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

KBNA’s geographic dispersion of residential real estate loans is excellent. The range of performance for the percentage of home loans originated in moderate-income CTs is lower to near the ratio of owner-occupied housing in those tracts. We considered this performance reasonable given performance context factors. The AA contains no low-income CTs, but middle-income CTs are designated distressed by the FDIC, and bank performance receives consideration for lending in these tracts. The percentages for all three home loan products originated in these middle-income and distressed CTs exceeds the percentage of owner-occupied housing in these tracts. Thus, the bank’s performance exceeds the standard for satisfactory performance.

Consumer Loans

KBNA’s geographic dispersion of consumer loans in the Kleberg County AA is reasonable and meets the standard for satisfactory performance. There are no low-income CTs in this AA, and the two middle-income CTs in the AA are designated distressed.

<b>Table 3B - Geographic Distribution of Consumer Loans in the Kleberg County AA</b>								
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	0.0	40.40	38.10	43.04	38.10	16.56	23.81

Source: Indicate source, i.e., loan sample or data collected by bank; U.S. Census data.

As reflected in Table 3B above, the geographic dispersion of consumer loans to moderate-income tracts is near the demographic comparator. The bank originated 38.10 percent of the consumer loans sampled to households located in moderate-income tracts considering 40.40 percent of households in the AA are of moderate-income. Geographic dispersion of consumer loans to middle-income geographies is

also reasonable. Given the distressed designation of middle-income CTs in the AA, the percentage of consumer lending in these tracts (38.10 percent) only slightly lags the demographic comparator (43.04 percent).

**Nueces County Assessment Area**

The bank’s geographic distribution of loans in the AA reflects reasonable dispersion throughout CTs of different income levels. We gave more weight to consumer loan distribution due to performance context factors and the percentage of owner-occupied housing is limited in LMI geographies.

**Residential Loans**

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in the Nueces County AA</b>								
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	8.26	1.75	19.96	7.02	35.18	30.92	36.59	60.31
Home Improvement	8.26	8.70	19.96	26.09	35.18	21.74	36.59	43.48
Home Refinance	8.26	4.71	19.96	9.41	35.18	32.94	36.59	52.94

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

As Table 3 above reflects, KBNA’s geographic dispersion of home loans in the Nueces County AA is poor. With the exception of home improvement loans in low-income CTs and moderate-income CTs where the percentage of number of loans exceeded the percentage of owner-occupied housing in those tracts, the bank’s range of performance for home purchase and refinance loans was significantly lower than AA owner-occupied housing. The poor dispersion of home purchase and refinance loans in LMI geographies is explainable and attributed to performance context factors such as above average poverty and unemployment, age of housing stock, and limited owner-occupied units in those tracts. The community contact during this evaluation identified moderate-income housing as a need in the AA.

**Consumer Loans**

The geographic distribution of consumer loans reflects excellent dispersion throughout the AA. The geographic dispersion to low-income CTs reflects a slight lag to the demographic comparator (9.52 percent vs 11.42 percent), whereas, the dispersion of consumer loans to moderate-income households in the AA is excellent. Moderate-income households make up 20.64 percent of the AA, and 38.10 percent of consumer loans sampled were to this income tract. Additionally, the bank originated another 19 percent in consumer loans to middle-income CTs designated distressed by the FDIC.

<b>Table 3B - Geographic Distribution of Consumer Loans in the Nueces County AA</b>								
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	11.42	9.52	20.64	38.10	35.29	19.05	32.50	33.33

Source: Consumer Loan Sample; U.S. Census data.

### Responses to Complaints

KBNA has not received any complaints pertaining to the bank’s CRA performance during the evaluation period.

### COMMUNITY DEVELOPMENT TEST

KBNA’s overall performance under the CD Test is satisfactory. The bank’s CD performance demonstrates adequate responsiveness to the CD needs of its AAs considering its capacity, the needs and opportunities within the AAs, and the bank’s performance context. In reaching this conclusion, more weight was given to the extent to which the bank provided services and the level of qualified investments and donations made to directly respond to the needs of its AAs.

### Number and Amount of Community Development Loans

The number and amount of CD loans originated during the evaluation period is considered adequate responsiveness to the CD loan needs of the AA when considering the bank’s capacity, the needs and opportunities within the AAs, and the bank’s performance context. The bank originated two loans during the evaluation period totaling \$240 thousand that qualified as CD loans. These two loans were originated on properties in LMI geographies and for the purpose of providing affordable-housing for low- and moderate-income individuals.

In the Nueces County AA, the bank originated a \$60 thousand loan to fund improvement on an apartment complex located in a low-income CT in the AA. The multifamily complex with a monthly rent per unit cost of \$500 benefits LMI individuals considering the AA median family income exceeds \$56 thousand.

In the Kleberg County AA, the bank approved a revolving line of credit (RLOC) totaling \$180 thousand to fund a borrower in the business of acquiring single-family homes in moderate-income and middle-income distressed geographies, making improvements, and renting to LMI individuals.

According to community contacts, banking and credit needs in the AAs are primarily consumer and business working capital. Small businesses in particular are in need of access to credit in Kingsville. The poor performance is explainable given the limited CD lending opportunities that exist in both AAs. According to the community contacts information, there are few CD projects ongoing in the AAs. Those that do exist were primarily funded by government grants through entities such as the Texas Community Credit Union and LiftFund. The "LiftFund", a financial and business-support non-profit micro-lender, provides capital to entrepreneurs who cannot obtain funding from commercial sources.

Moderate-income housing was identified by community contacts as a significant need in the Nueces County AA, but the lack of such construction projects seems more to do with a shortage of developers rather than reluctant financiers.

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

KBNA made 23 qualified investments and donations totaling \$318 thousand during the evaluation period. This level of investments is reflective of adequate responsiveness to the CD needs in the bank's AAs. The number of CD investments and donations shows the bank is actively involved in serving the community. The donations were to non-profit organizations that provide social services, including youth programs, women's shelter, small business finance and scholarship awards that target LMI individuals and geographies, in addition to small businesses within the AAs. Community contacts made during the examination help support this assertion; they specifically mention KBNA as the most active and supportive bank in terms of CD activities in the AAs.

The bank made 20 qualified donations during the review period totaling \$31,685 (\$30,300 in the Nueces County AA and \$1,385 in the Kleberg County AA). Additionally, the bank made three qualifying investments in the Small Business Investment Company (SBIC) during the evaluation period totaling \$265,502. The investments in SBIC will indirectly benefit small businesses, while the LMI families and geographies in the AAs will benefit directly from bank donations. A portion of the bank's donations went to fund scholarship awards for LMI individuals. Community contacts specifically identified scholarship funding as a need in the AAs.

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

The level of CD services reflects adequate responsiveness to CD needs. The bank provided 15 qualified CD services from directors, officers, and employees across the AAs.

**Kleberg County Assessment Area**

The level of CD services reflects adequate responsiveness to the Kleberg County AA's CD needs. The bank provides services to low- and moderate-income individuals through the operation of three banking facilities and seven ATMs in the AA. Additionally, the bank's retail banking services, including free checking and low-cost deposit accounts, benefit low- and moderate-income individuals. The bank's main headquarters and a drive-in facility are located in a moderate-income CT, and its Walmart branch is located in a middle-income CT designated "distressed" by the FDIC. Distressed CTs are those tracts identified by the federal government as in need of activities that will revitalize or stabilize the economy. The presences of branches in low- and moderate-income geographies help demonstrate the availability of banking services to low- and moderate-income individuals.

Several bank employees provided community development services to qualifying programs and organizations in the AA. Examples include but are not limited to the following:

- Serving as Treasurer of the Kiwanis Club of Kingsville - a non-profit organization supporting low- and moderate-income individuals;
- Serving on the board of the Kingsville Independent School District and help organize fundraising and solicit investment;
- Serving on the board of Christus Sphon Health System Foundation whose purpose is to raise funds to offer health care facilities to low- and moderate-income and distressed geographies.

According to a community contact during the examination, banking needs are primarily consumer, and there are opportunities to provide education on basic financial skills like balancing a checkbook and applying for a mortgage, particularly to the young population in the AA.

**Nueces County Assessment Area**

The level of CD services reflects adequate responsiveness to the Nueces County AA's CD needs. The bank provides services to low- and moderate-income individuals through the operation of five banking facilities and eight ATMs in the AA. Three branches are located in low-income CTs of the AA and two are situated in moderate-income CTs. By the presence of these banking locations in LMI geographies, and offering free checking accounts in these areas, in addition to other banking services, the bank demonstrates adequate responsiveness to the CD needs of the AA.

During the evaluation period, bank staff served as board members and treasurers, and provided budgeting, fund raising, and financial education for community organizations. Examples include but are not limited to the following:

- Speaking on financial literacy to the students of George Evans Elementary School and South Park Middle School where a majority of students qualify for free or reduced price meal plans;
- Serving on the board of Corpus Christi Business and Job Development Corporation - an organization that provides affordable housing for low- and moderate-income individuals;
- Speaking for homeownership education organized for LMI individuals, disabled and seniors who are victims of predatory lending practices;
- Serving on the board and finance committee of Charlie's Place which helps raise funds and solicit investment for residential detoxification programs and family counseling services for LMI individuals and families; and
- Serving as Treasurer of the Corpus Christi Education Foundation to manage finances and review applications for grants. The Foundation serves and supports the Corpus Christi ISD through financial contributions and volunteer services.

Community contact information identified the need for experienced board members for non-profit organizations, and sponsorship for youth development programs.

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

The bank demonstrates adequate responsiveness to the needs in its AAs. The bank has invested time, personnel resources, and financing commitment to CD activities that benefit community organizations and various needs of low- and moderate-income individuals.

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

Pursuant to 12 CFR 25.28(c), in determining a CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any AA by an affiliate whose loans have been considered as part of the bank's lending performance.

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