

PUBLIC DISCLOSURE

April 20, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Heritage Bank
RSSD # 574051

1850 Pearland Parkway
Pearland, Texas 77581

Federal Reserve Bank of Dallas
2200 North Pearl Street
Dallas, Texas 75201

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

Heritage Bank's (bank) performance demonstrates a reasonable record of meeting the credit needs of its assessment areas, including low- and moderate-income areas, in a manner consistent with its resources, operating philosophy, and credit needs of the community it serves. The factors supporting this rating include:

- A majority of HMDA and small business loans, 76.3% of the number and 78.8% of the dollar volume, originated inside the bank's assessment areas.
- A more than reasonable net loan-to-deposit ratio (LTD) of 93.3% as of March 31, 2015, with a quarterly average of 88.0% since the previous CRA evaluation, given the institution's resources and competition in the assessment areas.
- An excellent penetration of loans among individuals of different income levels and businesses of different sizes.
- A reasonable dispersion of loans throughout the institution's assessment areas.

SCOPE OF EXAMINATION

The evaluation was conducted using the Federal Financial Institutions Examination Council (FFIEC) CRA small bank performance standards. Small bank CRA performance standards evaluate the following criteria:

- Average loan-to-deposit ratio since the last CRA evaluation.
- The overall level of lending within the assessment area.
- The bank's lending to borrowers of different income levels and businesses of different sizes.
- The bank's geographic distribution of loans within its assessment area.
- The bank's response to written complaints with respect to CRA performance in the assessment area.

Each standard is viewed as part of an overall picture of the bank's performance in meeting the credit needs of its delineated assessment area. Consistent with the examination procedures, Home Mortgage Disclosure Act (HMDA) data reported by the bank from January 1, 2012 to December 31, 2013 were reviewed. Commercial lending is the primary loan product line of the bank. As such, a sample of 50 commercial loans originated by the bank between January 1, 2013 and December 31, 2013 was reviewed in addition to the HMDA data.

Though the sample included 50 commercial loans, the analysis only evaluated the bank's loans to small businesses. Loans to small businesses have original amounts of \$1 million or less and typically are secured by either nonfarm or nonresidential real estate or are classified as commercial and industrial loans. A small business is defined as having gross annual revenues of

\$1 million or less. The bank’s small business lending performance is given more weight than the HMDA performance when evaluating the bank’s overall lending performance.

Due to their relative size as determined by loan activity, proportion of bank deposits, and market population, full-scope evaluation procedures were applied to the Pearland, La Vernia and Nixon assessment areas. The bank's overall rating is based on performance in the full scope assessment areas. The remaining assessment area (Detroit) was subject to the limited review procedures provided for by the FFIEC. For the limited review assessment area, a determination was made as to whether the performance was consistent with the assigned overall rating.

DESCRIPTION OF INSTITUTION

The bank is headquartered in Pearland, Texas. It operates four full service branches and one loan production office. The bank is a wholly owned subsidiary of Heritage Bancorp Incorporated, a single-bank holding company, also headquartered in Pearland, Texas. This evaluation considers only the activities of the bank during the review period. The bank has not opened or closed any branches since the previous examination. However, since the previous examination, the bank acquired Nixon State Bank in June 2014, which expanded the bank’s footprint to include two new branches and two additional assessment areas (La Vernia and Nixon). Nixon State Bank loans originated during the review period were considered during this evaluation. The following table reflects the retail locations.

Retail Locations				
	TRACT INCOME LEVEL COUNTY	ATM (YES/NO)/ DEPOSIT-TAKING CAPABILITY	LOBBY HOURS	DRIVE-THRU HOURS
Full Service Branches				
Home Office Pearland Branch 1850 Pearland Parkway Pearland, TX 77581	6604.00 Upper Brazoria County	Yes No Deposits	9 a.m. to 4 p.m. Monday thru Thursday 9 a.m. to 6 p.m. Friday 9 a.m. to Noon Saturday	7:30 a.m. to 6 p.m. Monday thru Friday 9 a.m. to Noon Saturday
Detroit Branch 12038 Highway 82 West Detroit, TX 75436	9507.00 Middle Red River County	Yes No Deposits	9 a.m. to 3 p.m. Monday thru Thursday 9 a.m. to 6 p.m. Friday	8:00 a.m. to 5 p.m. Monday thru Thursday 8 a.m. to 6 p.m. Friday

Retail Locations				
Full Service Branches	TRACT INCOME LEVEL COUNTY	ATM (YES/NO)/ DEPOSIT-TAKING CAPABILITY	LOBBY HOURS	DRIVE-THRU HOURS
Nixon Branch 200 N Nixon Ave Nixon, TX 78140	5.00 Moderate Gonzales	Yes No Deposits	9 a.m. to 4 p.m. Monday thru Thursday 9 a.m. to 6 p.m. Friday Walk-ups: 8:30 a.m. to 9 a.m. Monday thru Friday	No drive thru
La Vernia Branch 13809 W HWY 87 La Vernia, TX 78121	1.03 Upper Wilson County	Yes No Deposits	9 a.m. to 4 p.m. Monday thru Thursday 9 a.m. to 6 p.m. Friday	7:30 a.m. to 4 p.m. Monday thru Thursday 7:30 a.m. to 6 p.m. Friday 9 a.m. to Noon Saturday
Loan Production Office Lake Jackson 130-A Parking Way Lake Jackson, TX 77566	6633.00 Middle Brazoria County	No	9 a.m. to 4 p.m. Monday thru Friday	No drive thru

As of March 31, 2015, the bank reported total assets of \$194.7 million, gross loans of \$149.1 million, and total deposits of \$158.0. The net loan-to-deposit ratio was 93.3%. The composition of the loan portfolio as of March 31, 2015, is represented in the following table:

Product	3/31/2015 \$(000's)	% of Loans
Real Estate		
1-4 Family Residential Construction Loans	10,354	6.9
Other Construction Loans & Land Development & Other	19,506	13.1
Farm Land	949	0.6
1-4 Family Residential Secured by First Liens	23,052	15.5
1-4 Family Residential Secured by Junior Liens	1,109	0.7
Multifamily	4,810	3.2
Nonfarm Nonresidential Loans Secured Owner Occupied Nonfarm Nonresidential	29,374	19.7
Loans Secured by Other Nonfarm Nonresidential	32,941	22.1
Total Real Estate	122,095	81.9
Agricultural	1,340	0.9
Commercial and Industrial	17,543	11.8
Consumer	8,105	5.4
State and Political Subdivisions	21	>0.0
Gross Loans	149,104	100.00

As reflected in the preceding table, the product mix is comprised primarily of real estate loans. Commercial lending (commercial and industrial and nonfarm nonresidential real estate loans) is the bank’s strategic focus. Residential real estate loans are also a major product line.

The bank’s ability to meet various credit needs of the community has not been hampered by its capacity to lend, its financial condition and size, product offerings, prior performance, legal impediments or other factors. The bank received a Satisfactory rating on its last CRA performance evaluation dated October 18, 2010 performed by the Federal Reserve Bank of Dallas.

DESCRIPTION OF ASSESSMENT AREAS

The bank currently serves four assessment areas, two of which are located in a metropolitan statistical area (MSA), and two are located in nonmetropolitan areas of Texas. The following tables reflect the current composition of the bank's assessment areas.

Assessment Area	County	State	Tracts
Pearland*	Harris County	TX	All
	Brazoria County	TX	All
	Galveston County	TX	All
La Vernia*	Wilson County	TX	All
	Guadalupe County	TX	All
Nixon*	Gonzales County	TX	All
	Karnes County	TX	All
Detroit**	Red River County	TX	All
	Lamar County	TX	All

* This assessment area was reviewed utilizing the full-scope evaluation procedures.

**This assessment area was reviewed utilizing the limited-scope evaluation procedures.

Demographic and economic information impacting the bank’s performance context are discussed below. Information was obtained from publicly available sources including the U.S. Department of Commerce’s Bureau of the Census, 2010; American Community Survey (ACS) 2006-2010, the U.S. Department of Labor; the U.S. Department of Housing and Urban Development (HUD); Dun & Bradstreet (D&B); and the Texas Workforce Commission.

Pearland Assessment Area

The Pearland assessment area is the largest of the four assessment areas. It is comprised of Harris, Brazoria, and Galveston Counties, which are part of the Houston-The Woodlands-Sugar Land, Texas metropolitan statistical area (MSA). According to 2010 census data, the total population for the assessment area is 4.7 million. One branch and the LPO are located in this

assessment area. The following table provides further information on the counties in this assessment area.

County	2014 Population Estimate	% Increase Since 2010	County Seat and other major municipalities
Harris	4,431,470	8.1	Houston, Baytown, Humble, La Porte, Pearland (part), and South Houston
Brazoria	338,124	(1.0)	Angleton, Brazoria, Freeport, Lake Jackson, and Pearland (part)
Galveston	314,198	7.4	Galveston, Le Marque, League City, and Texas City

The table on the following page details selected characteristics of the assessment area.

Pearland Assessment Area Demographics								
Income Categories	Tract Distribution		Families By Tract Income		Families < Poverty Level as a % of Families by Tract		Families By Family Income	
	#	%	#	%	#	%	#	%
Low-Income	133	14.7%	120,176	11.0%	41,075	34.2%	282,464	25.8%
Moderate-Income	277	30.7%	307,140	28.1%	58,610	19.1%	187,804	17.2%
Middle-Income	227	25.2%	302,470	27.6%	29,593	9.8%	191,298	17.5%
Upper-Income	262	29.0%	365,049	33.3%	12,701	3.5%	433,269	39.6%
Unknown-Income	3	0.3%	0	0.0%	0	0.0%	0	0.0%
Total AA	902	100.0%	1,094,835	100.0%	141,979	13.0%	1,094,835	100.0%
	Housing Units By Tract	Housing Type By Tract						
		Owner-Occupied			Rental		Vacant	
		#	% By Tract	% By Unit	#	% By Unit	#	% By Unit
Low-Income	234,189	51,071	5.4%	21.8%	137,127	58.6%	45,991	19.6%
Moderate-Income	514,879	226,112	24.0%	43.9%	214,042	41.6%	74,725	14.5%
Middle-Income	482,576	278,846	29.5%	57.8%	150,264	31.1%	53,466	11.1%
Upper-Income	569,371	388,519	41.1%	68.2%	134,405	23.6%	46,447	8.2%
Unknown-Income	50	0	0.0%	0.0%	50	100.0%	0	0.0%
Total AA	1,801,065	944,548	100.0%	52.4%	635,888	35.3%	220,629	12.2%
	Total Businesses by Tract	Businesses By Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-Income	26,060	10.2%	22,503	9.8%	2,367	14.3%	1,190	12.4%
Moderate-Income	59,603	23.3%	52,988	23.1%	4,203	25.4%	2,412	25.0%
Middle-Income	64,132	25.1%	57,936	25.2%	3,773	22.8%	2,423	25.2%
Upper-Income	105,961	41.4%	96,188	41.9%	6,174	37.4%	3,599	37.4%
Unknown-Income	108	0.0%	90	0.0%	12	0.1%	6	0.1%
Total AA	255,864	100.0%	229,705	100.0%	16,529	100.0%	9,630	100.0%
Percent of Total Businesses:				89.8%		6.5%		3.8%

Based on 2013 Dun & Bradstreet information according to 2010 ACS.

According to the FDIC, as of June 30, 2014 there were 92 federally insured depository institutions, operating 188 branches, and holding \$220.4 billion in deposits within the Pearland assessment area. The bank ranked 75th and held less than 0.1% of the deposit market share. Primary competitors in the market include JPMorgan Chase Bank, N.A.; Wells Fargo Bank South Central, N.A.; Wells Fargo Bank, N.A.; Bank of America Texas, N.A.; and Compass Bank.

Income Characteristics: The Pearland assessment area is comprised of 902 census tracts, 133 of which are defined as low-income and 277 are moderate-income tracts. Low- and moderate-income families represent 43.0% of all families within the assessment area. The ACS median family income is \$60,492, which is higher than the state of Texas (\$58,142). Families living below poverty level represent 13.0% of all families within the assessment area, which is slightly higher than the MSA (11.8%) and comparable to the state of Texas (13.0%).

Housing: According to 2010, census data there are 1.8 million housing units in the assessment area with a median age of 32 years. The median housing value is \$132,961. Owner-occupied housing units comprise 52.4% of housing stock, which is slightly below the state of Texas (57.0%) and the MSA (56.0%). Rental units and vacant units comprise 35.5% and 12.3% of the housing stock, respectively. The distribution of owner-occupied housing units was 5.4 % in low-income census tracts, 24.0% in moderate-income tracts, 29.5% in middle-income census tracts, and 41.1% in upper-income census tracts.

The housing affordability ratio for the assessment area is 39.5%. The affordability ratio is defined as the median household income divided by the median housing value. A higher ratio means the housing is considered more affordable. By comparison, the affordability ratio for the state of Texas is 40.2%. Therefore, the affordability of housing in the assessment area is comparable to that of the state of Texas.

Labor, Employment, and Economic Characteristics: According to 2013 D&B data, there were approximately 255,864 business establishments in the Pearland assessment area. A majority, 89.8 %, of these are small businesses reporting revenues of less than \$1 million. The major employment sectors include management, business, science, arts, healthcare, oil and gas, and education. Major employers include BP, NASA, Exxon, Chevron, Shell Oil Company, ConocoPhillips, Rice University, UTHealth, United Airlines, and Marathon Oil. As of April 2015, the unemployment rate for Harris, Brazoria, and Galveston Counties were 4.0%, 4.0%, and 4.4%, respectively. State of Texas' unemployment rate was 4.0% during the same timeframe.

Community Contacts and Credit Needs: Contact was made with an official working in affordable housing. The contact stated that affordable housing units are in high demand and opined that investors are purchasing and redeveloping real estate into higher-end housing. In addition, landlords in the area are steadily increasing rent making housing significantly less affordable.

La Vernia Assessment Area

The La Vernia assessment area is comprised of Wilson and Guadalupe Counties, which are part of the San Antonio-New Braunfels, Texas MSA. According to 2010 census data, the total population for the assessment area is 56,070. One branch is located in this assessment area. The following table provides further information on the counties in this assessment area.

County	2014 Population Estimate	% Increase Since 2010	County Seat and other major municipalities
Wilson	46,402	8.1	Floresville, Nixon (part), La Vernia, Poth, and Stockdale
Guadalupe	114,250	13.1	Seguin, New Braunfels, and Schertz,

According to the FDIC, as of June 30, 2014 there were 48 federally insured depository institutions, operating 373 branches, and holding \$82.9 billion in deposits within the assessment area. The bank operates one branch in the assessment area and ranks 38th holding less than 0.1% of the market share. Primary competitors in the market include USAA, FSB; Frost Bank; Wells Fargo Bank, N.A.; Bank of America Texas, N.A.; and Broadway National Bank.

The table on the following page details selected characteristics of the assessment area.

La Vernia Assessment Area Demographics								
Income Categories	Tract Distribution		Families By Tract Income		Families < Poverty Level as a % of Families by Tract		Families By Family Income	
	#	%	#	%	#	%	#	%
Low-Income	1	2.5%	1,090	2.4%	352	32.3%	6,990	15.5%
Moderate-Income	6	15.0%	6,527	14.5%	935	14.3%	7,124	15.8%
Middle-Income	18	45.0%	18,428	40.9%	1,557	8.4%	9,080	20.1%
Upper-Income	15	37.5%	19,045	42.2%	532	2.8%	21,896	48.6%
Unknown-Income	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total AA	40	100.0%	45,090	100.0%	3,376	7.5%	45,090	100.0%
	Housing Units By Tract	Housing Type By Tract						
		Owner-Occupied			Rental		Vacant	
		#	% By Tract	% By Unit	#	% By Unit	#	% By Unit
Low-Income	1,736	716	1.6%	41.2%	679	39.1%	341	19.6%
Moderate-Income	9,915	5,800	12.6%	58.5%	3,312	33.4%	803	8.1%
Middle-Income	27,273	19,237	42.0%	70.5%	4,784	17.5%	3,252	11.9%
Upper-Income	24,082	20,053	43.8%	83.3%	2,612	10.8%	1,417	5.9%
Unknown-Income	0	0	0.0%	0.0%	0	0.0%	0	0.0%
Total AA	63,006	45,806	100.0%	72.7%	11,387	18.1%	5,813	9.2%
	Total Businesses by Tract	Businesses By Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-Income	150	2.2%	127	2.1%	15	5.9%	8	3.0%
Moderate-Income	1,090	16.3%	987	16.0%	51	20.0%	52	19.5%
Middle-Income	2,811	41.9%	2,587	41.8%	119	46.7%	105	39.3%
Upper-Income	2,656	39.6%	2,484	40.2%	70	27.5%	102	38.2%
Unknown-Income	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total AA	6,707	100.0%	6,185	100.0%	255	100.0%	267	100.0%
Percent of Total Businesses:				92.2%		3.8%		4.0%

Based on 2013 Dun & Bradstreet information according to 2010 ACS.

Income Characteristics: The La Vernia assessment area encompasses 40 census tracts, one of which is defined as low-income and six are a moderate-income tract. Low- and moderate-income families represent 31.3% of all families within the assessment area. The ACS median family income is \$58,222, which is higher than the state of Texas (\$58,142). Families below poverty level represent 7.5% of all families within the assessment area, which is lower than the MSA (15.0%) and the state of Texas (13.0%).

Housing: According to 2010 census data, there are 63,006 housing units within the assessment area with a median age of 20 years and a median housing value of \$138,465. Owner-occupied housing units comprised 72.7% of housing stock, which is above the state of Texas (57.0%). Rental and vacant units comprise 18.1% and 9.2%, respectively. The distribution of owner-occupied housing units was 1.6% in low-income census tracts, 12.6% in moderate-income census tracts, 42.0% in middle-income census tracts, and 43.8% in upper-income census tracts.

The housing affordability ratio for the assessment area is 43.9%. By comparison, the affordability ratio for the state of Texas is 40.2%. Therefore, housing in the assessment area is slightly more affordable than the state of Texas.

Labor, Employment, and Economic Characteristics: According to 2013 D&B data, there were approximately 6,707 business establishments in the La Vernia assessment area. A majority, 92.2%, of these were small businesses reporting revenues of less than \$1 million. As of April 2015, the unemployment rate for Bexar, Guadalupe, and Wilson were 3.4%, 3.1%, and 3.3%, respectively which is lower than the state of Texas (4.0%) for the same timeframe.

Major employment sectors within the assessment area include manufacturing, natural resources and mining, construction, trade, transportation. Major employers include Tyson Food Inc., Walmart, H-E-B Grocery Co., EOG Resources, Marathon Oil, Aire Plastics Inc., Flare Igniter & Rentals LLC, KAYCO Spray Booths, Alamo Group, and Commercial Metals Company.

Community Contacts and Credit Needs: Contact was made with a community leader working in affordable housing. The contact stated that there is a significant need for affordable housing for working class families. The contact communicated that some families do not meet qualifications for affordable housing programs because their stated income is above the income guidelines; however, they cannot afford market rents or the cost of a home that would support the size of their family.

Nixon Assessment Area

The Nixon assessment area is comprised of rural Gonzales and Karnes Counties. According to 2010 census data, the total population for the assessment area is 34,631. One branch is located in this assessment area. The following table provides further information on the counties in this assessment area.

County	2014 Population Estimate	% Increase Since 2010	County Seat and other major municipalities
Gonzales	20,462	3.2	Gonzales and Nixon
Karnes	14,906	0.3	Karnes City, Falls City, and Kenedy

According to the FDIC, as of June 30, 2014 there were eight federally insured depository institutions with nine branches and holding \$1.2 billion in deposits within the assessment area. The bank ranked eighth and held 4.36% of the market share. The bank's primary competitors in the market include The Karnes County National Bank of Karnes City, Wells Fargo Bank, N.A.; Falls City National Bank; Prosperity Bank; and Sage Capital Bank, N.A.

According to the Federal Financial Institutions Examination Council (FFIEC), Gonzales and Karnes Counties contain distressed nonmetropolitan middle-income geographies. These geographies are distressed due to poverty. A nonmetropolitan middle-income geography is designated as distressed if it is in a county that meets certain unemployment, poverty, or population loss triggers.

The table on the following page details selected characteristics of the assessment area.

Nixon Assessment Area Demographics								
Income Categories	Tract Distribution		Families By Tract Income		Families < Poverty Level as a % of Families by Tract		Families By Family Income	
	#	%	#	%	#	%	#	%
Low-Income	0	0.0%	0	0.0%	0	0.0%	2,080	24.4%
Moderate-Income	3	30.0%	2,227	26.1%	466	20.9%	1,555	18.2%
Middle-Income	5	50.0%	4,374	51.2%	753	17.2%	1,541	18.0%
Upper-Income	2	20.0%	1,939	22.7%	136	7.0%	3,364	39.4%
Unknown-Income	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total AA	10	100.0%	8,540	100.0%	1,355	15.9%	8,540	100.0%
	Housing Units By Tract	Housing Type By Tract						
		Owner-Occupied			Rental		Vacant	
		#	% By Tract	% By Unit	#	% By Unit	#	% By Unit
Low-Income	0	0	0.0%	0.0%	0	0.0%	0	0.0%
Moderate-Income	3,688	1,866	23.3%	50.6%	1,305	35.4%	517	14.0%
Middle-Income	7,111	4,182	52.2%	58.8%	1,697	23.9%	1,232	17.3%
Upper-Income	3,457	1,970	24.5%	57.0%	673	19.5%	814	23.5%
Unknown-Income	0	0	0.0%	0.0%	0	0.0%	0	0.0%
Total AA	14,256	8,018	100.0%	56.2%	3,675	25.8%	2,563	18.0%
	Total Businesses by Tract	Businesses By Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-Income	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate-Income	254	19.1%	227	19.1%	13	18.6%	14	20.6%
Middle-Income	810	60.9%	733	61.5%	35	50.0%	42	61.8%
Upper-Income	265	19.9%	231	19.4%	22	31.4%	12	17.6%
Unknown-Income	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total AA	1,329	100.0%	1,191	100.0%	70	100.0%	68	100.0%
Percent of Total Businesses:			89.6%		5.3%		5.1%	

Based on 2013 Dun & Bradstreet information according to 2010 ACS.

Income Characteristics: The Nixon assessment area includes 10 census tracts, none of which are defined as low-income and three are moderate-income tracts. Five census tracts were identified as distressed. Low- and moderate-income families represent 42.6% of all families within the assessment area. The ACS state nonmetropolitan median family income is \$48,160, which is lower than the state of Texas (\$58,142). Families below poverty level represent 15.9% of all families within the assessment area, which is higher than the state of Texas (13.0%).

Housing: According to 2010 census data, there are 14,256 housing units in the assessment area with a median age of 39 years and a median housing value of \$69,605. Owner-occupied housing units comprise 56.2% of housing stock, which is comparable to the state of Texas (58.2%). Rental units represent 25.8% of the total housing units while vacant units represent 18.0%. The distribution of owner-occupied housing units was 23.3% in moderate-income census tracts, 52.2% in middle-income census tracts, and 24.5% in upper-income census tracts.

The housing affordability ratio for the assessment area is 54.7%. The ratio indicates that housing is more affordable in the assessment area when compared to the state of Texas (40.2%).

Labor, Employment, and Economic Characteristics: According to 2013 D&B data, there were approximately 1,329 business establishments in the Nixon assessment area. A majority, 89.6 %, of these are small businesses reporting revenues of less than \$1 million. As of April 2015, the unemployment rate for Gonzales and Karnes Counties were 3.1%, and 3.7%, respectively. Both counties' unemployment rates are lower than the state of Texas (4.0%) for the same period.

Major employment sectors in the region include agriculture, forestry, fishing, hunting, and mining. Major employers include H-E-B Grocery Co., Helmerich & Payne, Inc., Senior Helpers, Select Energy Services, Guadalupe Valley Electric, Acadian Land Services, Capitol Monument Company, Southern Clay Products, and Harwood Poultry LTD.

Community Contacts and Credit Needs: Contact was made with a community leader working in affordable housing. The contacts stated the area was thriving for many years due to oil and gas resources found nearby; however, recently, the industry is slowly moving out. The successful economy did not benefit low-income families as minimum rents increased to \$1,000 per month, making affordable housing scarce. In addition, the contact mentioned that there are housing needs for low-income singles that are 61 years of age or under and are not disabled.

Detroit Assessment Area

This assessment area was reviewed using the limited review examination procedures.

The Detroit assessment area is comprised of rural Red River and Lamar Counties. According to 2010 census data, the total population for the assessment area is 62,563. One branch is located in this assessment area. The table on the following page provides further information on the counties in this assessment area.

County	2014 Population Estimate	% Increase Since 2010	County Seat and other major municipalities
Red River	14,446	(3.2)	Clarksville, Bogata, and Detroit
Lamar	49,523	(0.6)	Paris, Reno

According to the FDIC, as of June 30, 2014 there were 10 federally insured depository institutions operating 19 branches and holding \$1.1 billion in deposits within the assessment area. The bank ranked 10th of the FDIC insured institutions with 1.66% of the market share. The bank's primary competitors in the market include First Federal Community Bank, N.A.; Guaranty Bond Bank, N.A.; The Liberty National Bank in Paris; Lamar National Bank; and Capital One Bank, N.A.

According to the Federal Financial Institutions Examination Council (FFIEC), Lamar County contains distressed nonmetropolitan middle-income geographies. These geographies are distressed due to poverty. A nonmetropolitan middle-income geography is designated as distressed if it is in a county that meets certain unemployment, poverty, or population loss triggers. In addition, Red River County contains distressed nonmetropolitan middle-income geographies. These geographies are distressed due to poverty and population loss.

The table on the following page details selected characteristics of the assessment area.

Detroit Assessment Area Demographics								
Income Categories	Tract Distribution		Families By Tract Income		Families < Poverty Level as a % of Families by Tract		Families By Family Income	
	#	%	#	%	#	%	#	%
Low-Income	0	0.0%	0	0.0%	0	0.0%	3,571	20.5%
Moderate-Income	4	25.0%	3,181	18.3%	917	28.8%	3,244	18.6%
Middle-Income	10	62.5%	11,139	63.9%	1,165	10.5%	3,727	21.4%
Upper-Income	2	12.5%	3,100	17.8%	116	3.7%	6,878	39.5%
Unknown-Income	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total AA	16	100.0%	17,420	100.0%	2,198	12.6%	17,420	100.0%
	Housing Units By Tract	Housing Type By Tract						
		Owner-Occupied			Rental		Vacant	
		#	% By Tract	% By Unit	#	% By Unit	#	% By Unit
Low-Income	0	0	0.0%	0.0%	0	0.0%	0	0.0%
Moderate-Income	6,671	2,447	14.6%	36.7%	2,791	41.8%	1,433	21.5%
Middle-Income	18,435	11,057	66.0%	60.0%	3,949	21.4%	3,429	18.6%
Upper-Income	4,146	3,239	19.3%	78.1%	678	16.4%	229	5.5%
Unknown-Income	0	0	0.0%	0.0%	0	0.0%	0	0.0%
Total AA	29,252	16,743	100.0%	57.2%	7,418	25.4%	5,091	17.4%
	Total Businesses by Tract	Businesses By Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-Income	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate-Income	811	25.8%	726	25.6%	59	40.1%	26	16.8%
Middle-Income	1,712	54.6%	1,549	54.6%	61	41.5%	102	65.8%
Upper-Income	615	19.6%	561	19.8%	27	18.4%	27	17.4%
Unknown-Income	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total AA	3,138	100.0%	2,836	100.0%	147	100.0%	155	100.0%
Percent of Total Businesses:			90.4%		4.7%		4.9%	

Based on 2013 Dun & Bradstreet information according to 2010 ACS.

Income Characteristics: The Detroit assessment area contains 16 census tracts, none of which is defined as low-income and four are moderate-income tracts. Ten of the census tracts were identified as distressed. Low- and moderate-income families represent 39.1% of all families within the assessment area. The ACS state nonmetropolitan median family income is \$48,160, which is lower than the state of Texas (\$58,142). Families living below poverty level represent

12.6% of all families within the assessment area, which is slightly lower than the state of Texas (13.0%).

Housing: According to 2010 census data, there are 29,252 housing units in the assessment area with a median age of 33 and a median housing value of \$76,869. Owner-occupied housing units comprise 57.2% of housing stock, which is comparable to the state of Texas (57.0%). Rental and vacant units comprise 25.4% and 17.4% of the housing stock, respectively. The distribution of owner-occupied housing units is 14.6% moderate-income census tracts, 66.0% middle-income census tracts, and 19.3% upper-income census tracts.

The housing affordability ratio for the assessment area is 49.1%, which is higher than the state of Texas (40.2%). Therefore, housing in the assessment area is more affordable compared to the state of Texas.

Labor, Employment, and Economic Characteristics: According to 2013 D&B data, there were approximately 3,138 business establishments in the Detroit assessment area. A majority, 90.4 %, of these are small businesses reporting revenues of less than \$1 million. As of April 2015, the unemployment rate for Red River and Lamar Counties were 6.1%, and 4.6%, respectively. Both counties' unemployment rates are higher than the state of Texas (4.0%) for the same timeframe.

Major employment sectors in the region include educational, health, social services, and manufacturing. Major employers include Campbell Soup, Kimberly-Clark Corp., Turner Industries, and Paris Regional Medical Center.

Community Contacts and Credit Needs: Due to its limited size, no community contact was conducted for this assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The bank's overall performance under the lending test is rated Satisfactory. The bank's net loan-to-deposit (LTD) ratio is more than reasonable. A majority of loans were extended inside the assessment areas. The distribution of loans to low- and moderate-income (LMI) borrowers and to businesses of different sizes was excellent. The geographic dispersion of the bank's lending was reasonable given the performance context. The bank does a reasonable job of meeting the small business and consumer credit needs of its assessment areas.

The bank's performance under the lending test was analyzed by a review of the home mortgage-related loans reported by the bank in 2012 and 2013, as well as the commercial loans originated by the bank in 2013. This lending activity totaled 219 loans for a dollar volume of \$33.1 million. The table on the following page provides a breakdown by loan type.

Summary of Loans Reviewed				
(years 2012 and 2013)				
Loan Type	#	%	\$(000s)	%
Home Purchase	77	35.2%	9,449	28.5%
Refinancing	27	12.3%	2,969	9.0%
Home Improvement	61	27.9%	1,187	3.6%
Multi-Family Housing	4	1.8%	5,352	16.2%
Total HMDA-Related	169	77.2%	18,957	57.3%
Commercial	50	22.8%	14,147	42.7%

LOAN-TO-DEPOSIT RATIO

The general purpose of CRA is to encourage banks to meet the credit needs in their assessment areas while operating in a safe and sound manner. To gain an understanding of the bank's lending activity, the net LTD ratio is reviewed to approximate the credit demand of the assessment areas and assess the bank's willingness to meet the community's demand for credit.

The bank's net LTD ratio is considered more than reasonable, given the bank's size and financial condition, the credit needs of the assessment area, and the competitive local banking environment. As of March 31, 2015, the net LTD ratio was 93.3%, and the quarterly average since the previous evaluation was 88.0%. Since December 31, 2010, the bank's assets, loans, and deposits have increased by 75.1%, 80.1%, and 75.5%, respectively.

To gain further insight of the bank's performance in relation to its assessment area, a comparison of 21 similarly situated local banks was performed. These banks were chosen for analysis based on their proximity and similar size and structure. Their quarterly average net LTD ratios ranged from 8.73% to 106.5%. As noted, the bank's LTD ratios are higher than the majority of its peers and reflect favorably upon the bank's efforts to meet the credit needs of its community.

LENDING IN ASSESSMENT AREA

A majority of the bank's loans were originated inside its assessment area. As shown in the table below, the bank extended 167 or 76.3% by number inside its assessment areas. By dollar volume loans originated within the bank's assessment areas, represents approximately \$26.1 million or 78.8%.

Loan Types	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Home Improvement	51	83.6	\$1,089	91.7	10	16.4	\$98	8.3
Home Purchase - Conventional	49	63.6	\$6,032	63.8	28	36.4	\$3,417	36.2
Multi-Family Housing	4	100	\$5,352	100	0	0	\$0	0
Refinancing	23	85.2	\$2,540	85.6	4	14.8	\$429	14.4
Total HMDA related	127	75.1	\$15,013	79.2	42	24.9	\$3,944	20.8
Total Commercial	40	80	\$11,085	78.4	10	20	\$3,062	21.6
TOTAL LOANS	167	76.3	\$26,098	78.8	52	23.7	\$7,006	21.2

The remaining analyses will be based on loans made inside the bank's assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The bank primarily extends commercial loans including small business loans, and residential mortgage loans. During the evaluation period, the bank extended a larger volume of commercial loans than residential mortgage loans. Accordingly, the bank's small business lending performance was given more weight when considering the bank's combined product performance level.

Within the assessment areas reviewed using the full scope procedures, the bank's borrower distribution performance (lending to borrowers of different income and revenue levels) varies by year, loan product, and market area. The bank's performance in the Pearland assessment area is considered reasonable while the bank's performance in the Nixon and La Vernia assessment areas are considered excellent. More weight was placed on the performance in the Pearland assessment area due to the higher volume of lending. Overall, the bank's distribution of lending based on income and revenue levels of the borrowers reflects an excellent penetration among individuals of different income levels and businesses of different sizes. Data supporting this analysis can be seen in detail in the separate assessment area discussions.

GEOGRAPHIC DISTRIBUTION OF LOANS

Within the assessment areas reviewed using the full scope procedures, the bank's geographic distribution performance (lending to borrowers by income level of census tract) ranges from poor to excellent. The bank's performance in the Pearland assessment area is reasonable, performance in the La Vernia assessment area is poor, and the Nixon assessment area is excellent. When considering the bank's overall geographic distribution of lending performance, more weight is placed on the performance in the Pearland assessment area due to its greater volume. The least amount of weight was placed on the Nixon assessment area because there are no low-income census tracts in that assessment area. Overall, the bank's geographic distribution by the income level of geographies within the assessment areas is reasonable. Loans are

generally made in close proximity to the bank's branches, and there were no conspicuous gaps or anomalies in the lending patterns. Data supporting this analysis can be seen in detail in the separate assessment area discussions.

RESPONSE TO COMPLAINTS

There were no complaints related to CRA during the review period. Consequently, the bank's performance in responding to complaints was not considered in evaluating its overall CRA performance.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. Established policies and procedures are designed to ensure ongoing compliance with applicable laws and regulations.

Pearland Assessment Area

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

As previously mentioned, greater weight was given to this assessment area since it represents the largest volume of the bank's lending efforts. The bank's borrower distribution performance is considered excellent. In reaching this conclusion, more weight is placed on the bank's small business lending performance because of the larger relative volume of such lending. In addition, the performance of aggregate lenders was weighted more heavily than the assessment area's demographics families and small businesses in the assessment area because it is more indicative of the loan demand.

The following table depicts ACS median family income for the Houston-The Woodlands-Sugar Land, Texas MSA used for the analysis:

Income Level	2010 MSA
Median Income	\$64,179
Low-income	< \$32,090
Moderate-income	\$32,090-\$51,342
Middle-income	\$51,343-\$77,014
Upper-income	≥ \$77,015

HMDA Lending

Due to the limited volume, all HMDA lending products were analyzed collectively. During 2012, the bank made no loans to low-income borrowers while the aggregate lenders made 4.5% by number and 2.0% by dollar. Lending volume of both the bank and aggregate lenders were significantly below the percentage of low-income families in the assessment area. The bank's lending to moderate-income borrowers by number (2.6%) was significantly lower than the percentage of moderate-income families in the area (17.2%) and the aggregate level of lending (12.8%). The bank was also lower than the aggregate (7.2%) by dollar. Lending volume of both the bank and aggregate lenders was below the percentage of moderate-income families in the assessment area. The bank did not originate any loans to middle-income borrowers. Aggregate lenders underperformed the demographic by number and by dollar volume. Both the bank and the aggregate exceeded the aggregate in their lending to upper-income borrowers.

In 2013, the bank's HMDA lending to individuals of different income levels improved. The bank's lending to low-income borrowers by number (14.3%) exceeded the aggregate level of lending (4.3%). In addition the bank (3.3%) exceed aggregate (1.6%) by dollar volume in lending to low-income borrowers. However, both the bank and aggregate lenders lending to low-income families was lower than the percentage of low-income families (25.8%). The bank's lending to moderate-income borrowers by number (4.8%) and dollar (0.9%) lagged the aggregate level of lending by number (12.3%) and dollar (6.1%). Both the bank and aggregate lagged the number of moderate-income families in the area (17.2%) by dollar and volume. The bank did not originate any loans to middle-income borrowers, but aggregate lenders slightly exceeded the demographic by number but not by dollar. The aggregate exceeded the bank by dollar and number volume in loans to upper-income borrowers. However, only the aggregate outperformed the upper-income demographic.

The tables on the following pages illustrate the assessment area's demographics and HMDA lending for the bank and aggregate lenders for 2012 and 2013.

Distribution of 2012 HMDA Loans by Borrower Income Levels Pearland Assessment Area							
Borrow Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Families ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	0	0	0.0%	0.0%	5.6%	2.6%	25.8%
Moderate	1	92	5.0%	3.0%	17.2%	10.7%	17.2%
Middle	0	0	0.0%	0.0%	19.4%	15.4%	17.5%
Upper	12	2,425	60.0%	79.6%	45.3%	61.1%	39.6%
Unknown	7	528	35.0%	17.3%	12.4%	10.1%	0.0%
Refinanced Loans							
Low	0	0	0.0%	0.0%	3.3%	1.6%	25.8%
Moderate	0	0	0.0%	0.0%	8.2%	4.4%	17.2%
Middle	0	0	0.0%	0.0%	14.9%	9.9%	17.5%
Upper	6	920	54.5%	71.5%	57.7%	70.1%	39.6%
Unknown	5	366	45.5%	28.5%	15.9%	14.0%	0.0%
Home Improvement Loans							
Low	0	0	0.0%	0.0%	6.1%	2.2%	25.8%
Moderate	0	0	0.0%	0.0%	10.9%	5.0%	17.2%
Middle	0	0	0.0%	0.0%	16.4%	9.1%	17.5%
Upper	5	553	100.0%	100.0%	63.9%	79.0%	39.6%
Unknown	0	0	0.0%	0.0%	2.8%	4.6%	0.0%
Total Home Mortgage Loans							
Low	0	0	0.0%	0.0%	4.5%	2.0%	25.8%
Moderate	1	92	2.6%	1.7%	12.8%	7.2%	17.2%
Middle	0	0	0.0%	0.0%	17.2%	12.0%	17.5%
Upper	23	3,898	60.5%	72.7%	51.6%	62.2%	39.6%
Unknown	14	1,371	36.8%	25.6%	14.0%	16.6%	0.0%
Total	38	5,361	100.0%	100.0%	100.0%	100.0%	100.0%
¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. ² The percentage of families is based on 2010 ACS data. ³ Totals do not foot, as multi-family loans are not included in the Borrower Distribution Analysis. (NOTE: Percentages may include rounding errors)							

Distribution of 2013 HMDA Loans by Borrower Income Levels Pearland Assessment Area							
Borrow Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Families ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	1	90	9.1%	5.3%	4.2%	1.9%	25.8%
Moderate	0	0	0.0%	0.0%	14.6%	8.8%	17.2%
Middle	0	0	0.0%	0.0%	19.2%	14.6%	17.5%
Upper	3	406	27.3%	24.0%	48.7%	63.9%	39.6%
Unknown	7	1,196	63.6%	70.7%	13.2%	10.8%	0.0%
Refinanced Loans							
Low	2	156	28.6%	20.8%	4.3%	1.7%	25.8%
Moderate	1	68	14.3%	9.1%	9.5%	4.2%	17.2%
Middle	0	0	0.0%	0.0%	16.0%	8.6%	17.5%
Upper	4	526	57.1%	70.1%	52.7%	50.0%	39.6%
Unknown	0	0	0.0%	0.0%	17.4%	35.6%	0.0%
Home Improvement Loans							
Low	0	0	0.0%	0.0%	6.9%	1.6%	25.8%
Moderate	0	0	0.0%	0.0%	12.0%	4.6%	17.2%
Middle	0	0	0.0%	0.0%	17.6%	9.9%	17.5%
Upper	1	250	100.0%	100.0%	59.7%	77.9%	39.6%
Unknown	0	0	0.0%	0.0%	3.8%	6.0%	0.0%
Total Home Mortgage Loans							
Low	3	246	14.3%	3.3%	4.3%	1.6%	25.8%
Moderate	1	68	4.8%	0.9%	12.3%	6.1%	17.2%
Middle	0	0	0.0%	0.0%	17.8%	10.9%	17.5%
Upper	8	1,182	38.1%	15.6%	50.6%	53.2%	39.6%
Unknown	9	6,071	42.9%	80.2%	15.0%	28.1%	0.0%
Total	21	7,567	100.0%	100.0%	100.0%	100.0%	100.0%

¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers.
² The percentage of families is based on 2010 ACS data.
³ Totals do not foot, as multi-family loans are not included in the Borrower Distribution Analysis.
(NOTE: Percentages may include rounding errors)

Small Business Lending

To determine performance, the bank's small business lending is compared to the number of small businesses located in the assessment area. The bank is not required to report small business loan data due to its size. However, the bank's lending is compared to the performance of aggregate lenders that report small business loan data to obtain a sense of loan demand.

During the sample period, 30 loans were originated in this assessment area. Of these, 56.7% by number and 61.1% by dollar volume were originated to small businesses. The bank originated a

higher percentage of loans to small businesses than the aggregate lenders, whose lending distributions were 44.7% by number and 30.6% by dollar volume. D&B data indicates 89.8% of businesses in the assessment area were small businesses.

The table below further details the bank's performance, aggregate lenders, and assessment area's demographics.

Distribution of 2013 Business Loans by Revenue Size Pearland Assessment Area							
Business Revenue by Size ¹	Bank Loans				Aggregate CRA Data ²		% of Businesses ³
	#	\$(000s)	# %	\$ %	# %	\$ %	
\$1MM or less	17	3,795	56.7%	61.1%	44.7%	30.6%	89.8%
Over \$1MM	13	2,420	43.3%	38.9%	Not Reported		6.5%
Not Known	0	0	0.0%	0.0%			3.8%
Total	30	6,215	100.0%	100.0%			

¹ This analysis focuses on the bank's lending to "small businesses" as defined by the CRA, which are those businesses with gross annual revenues of \$1 million or less.
² Aggregate loan data reflects all loan originations in the bank's AA reported by all CRA filers. CRA data reports only business loans in amounts of \$1 million or less.
³ The percentage of businesses in the AA is based on 2013 Dun & Bradstreet Data.
(NOTE: Percentages may include rounding errors)

Another way to gauge the bank's small business lending performance is to review the data by loan amount. Small businesses typically require smaller dollar credits. In this regard, it is noted that 53.3% of the bank's commercial loans were made in loan amounts of \$100,000 or less.

The table below further details the bank's performance concerning small business loans and loans to small businesses.

Distribution of 2013 Small Business Loans and Loans to Small Businesses Pearland Assessment Area				
By Loan Size	#	%	\$(000s)	%
\$100,000 or less	16	53.3%	1,046	16.8%
\$100,001 - \$250,000	5	16.7%	956	15.4%
\$250,001 - \$1 Million	9	30.0%	4,213	67.8%
Total	30	100.0%	6,215	100.0%
By Loan Size and Revenue \$1 Million or Less				
\$100,000 or less	8	47.1%	566	14.9%
\$100,001 - \$250,000	4	23.5%	806	21.2%
\$250,001 - \$1 Million	5	29.4%	2,423	63.8%
Total	17	100.0%	3,795	100.0%

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution by the income level of geographies within the assessment area is reasonable. Loans were generally made in close proximity to the bank's branch and there were no conspicuous gaps or anomalies in the lending patterns. For the analysis, the geographic distribution of the lending was compared to available demographic trends, occupancy levels, as well as the performance of other banks were reviewed when assessing performance. Due to limited volume, all HMDA lending products will be analyzed collectively.

HMDA Lending

The bank's performance during 2012 in low-income census tracts (2.6%) exceeded the aggregate (1.6%) by number and performance was comparable to the aggregate (1.8%) by dollar. Both the bank and the aggregate lagged the percentage of owner-occupied housing units (5.4%) by number and by dollar. Lending in moderate-income census tracts (13.2%) exceeds the aggregate (10.4%) by number. In addition, the bank (10.7%) outperformed the aggregate (7.8%) by dollar. Both the aggregate and the bank performance were below the percentage of owner-occupied housing units (23.9%). By number and dollar, the bank exceeded both the aggregate and the percentage of owner-occupied units in middle-income census tracts. The aggregate outperformed the demographics in upper-income census tracts. The bank exceeded the demographic by dollar volume in upper-income census tract lending.

During 2013, the bank's overall HMDA lending in low-income census tracts exceeded both the aggregate and the percentage of owner-occupied housing units by number and dollar volume. By number, the bank's lending in moderate-income census tracts (33.3%) also exceeded both the percentage of owner-occupied housing units (23.9%) and the aggregate (12.0%). The bank (71.0%) significantly exceeded the aggregate (12.1%) and the percentage of owner-occupied units by dollar volume. In middle-income census tracts, the bank exceeded the demographics by number and the aggregate underperformed by number and dollar. Only the aggregate outperformed the demographic in lending in upper-income census tracts.

The tables on the following pages illustrate the assessment area's demographics and HMDA lending for the bank and aggregate lenders for 2012 and 2013.

Distribution of 2012 HMDA Loans by Income Level of Geography Pearland Assessment Area							
Census Tract Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Owner Occupied Units ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	0	0	0.0%	0.0%	1.7%	1.2%	5.4%
Moderate	2	114	10.0%	3.7%	11.3%	7.2%	23.9%
Middle	12	1,218	60.0%	40.0%	30.0%	22.8%	29.5%
Upper	6	1,713	30.0%	56.3%	57.0%	68.7%	41.1%
Home Refinance Loans							
Low	1	91	9.1%	7.1%	1.5%	1.0%	5.4%
Moderate	3	460	27.3%	35.8%	9.2%	5.6%	23.9%
Middle	5	414	45.5%	32.2%	23.3%	16.8%	29.5%
Upper	2	321	18.2%	25.0%	66.0%	76.6%	41.1%
Home Improvement Loans							
Low	0	0	0.0%	0.0%	3.1%	1.2%	5.4%
Moderate	0	0	0.0%	0.0%	13.2%	7.8%	23.9%
Middle	0	0	0.0%	0.0%	26.2%	19.8%	29.5%
Upper	5	553	100.0%	100.0%	57.5%	71.2%	41.1%
Multifamily Loans							% MF Units
Low	0	0	0.0%	0.0%	20.1%	14.0%	24.5%
Moderate	0	0	0.0%	0.0%	31.8%	32.0%	31.7%
Middle	1	294	50.0%	61.6%	19.1%	13.1%	20.8%
Upper	1	183	50.0%	38.4%	29.0%	40.9%	23.0%
Total Home Mortgage Loans							
Low	1	91	2.6%	1.7%	1.6%	1.8%	5.4%
Moderate	5	574	13.2%	10.7%	10.4%	7.8%	23.9%
Middle	18	1,296	47.4%	35.9%	26.7%	19.5%	29.5%
Upper	14	2,770	36.8%	51.7%	61.2%	70.9%	41.1%
Total	38	5,361	100.0%	100.0%	100.0%	100.0%	100.0%
¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. ² The percentage of housing units by tract based on 2010 ACS data. (NOTE: Percentages may include rounding errors.)							

Distribution of 2013 HMDA Loans by Income Level of Geography Pearland Assessment Area							
Census Tract Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Owner Occupied Units ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	2	622	18.2%	36.8%	1.8%	1.3%	5.4%
Moderate	2	312	18.2%	18.4%	11.5%	7.5%	23.9%
Middle	6	654	54.5%	38.7%	29.8%	23.4%	29.5%
Upper	1	104	9.1%	6.1%	56.9%	67.8%	41.1%
Home Refinance Loans							
Low	1	58	14.3%	7.7%	1.8%	2.2%	5.4%
Moderate	3	183	42.9%	24.4%	12.1%	16.0%	23.9%
Middle	2	187	28.6%	24.9%	27.1%	21.1%	29.5%
Upper	1	322	14.3%	42.9%	59.0%	60.8%	41.1%
Home Improvement Loans							
Low	0	0	0.0%	0.0%	4.2%	1.9%	5.4%
Moderate	0	0	0.0%	0.0%	18.3%	9.1%	23.9%
Middle	1	250	100.0%	100.0%	23.7%	18.9%	29.5%
Upper	0	0	0.0%	0.0%	53.7%	70.1%	41.1%
Multifamily Loans							% MF Units
Low	0	0	0.0%	0.0%	17.9%	12.4%	24.5%
Moderate	2	4,875	100.0%	100.0%	32.7%	20.0%	31.7%
Middle	0	0	0.0%	0.0%	23.1%	26.9%	20.8%
Upper	0	0	0.0%	0.0%	26.2%	40.6%	23.0%
Total Home Mortgage Loans							
Low	3	680	14.3%	9.0%	1.9%	2.5%	5.4%
Moderate	7	5,370	33.3%	71.0%	12.0%	12.1%	23.9%
Middle	9	1,091	42.9%	14.4%	28.4%	22.6%	29.5%
Upper	2	426	9.5%	5.6%	57.7%	62.8%	41.1%
Total	21	7,567	100.0%	100.0%	100.0%	100.0%	100.0%
¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. ² The percentage of housing units by tract based on 2010 ACS data. (NOTE: Percentages may include rounding errors.)							

2013 Small Business Lending

To assess performance, the bank’s lending is compared to the percentage of business in the assessment area. The bank is not required to report small business data due to its size. However, the bank’s lending is compared to the performance of aggregate lenders that report small business loan data to obtain a sense of loan demand.

The bank did not originate any small business loans in low-income census tracts. Conversely, the bank outperformed aggregated in its small business lending in moderate- and middle-income census tracts. When compared to the corresponding D&B demographic demand proxies, the bank’s level of lending exceeded the percentage of business in both moderate- and middle-income census tracts by number; however, the bank only exceeded demographic and aggregate by dollar volume in moderate-income census tract loans. The bank’s performance in upper income census tracts was below the aggregate or the percentage of businesses.

The table below further details the bank’s performance, aggregate lenders, and assessment area’s demographics.

Distribution of 2013 Business Loans by Income Level of Geography Pearland Assessment Area							
Census Tract Income Level	Bank Loans				Aggregate CRA Data ¹		% of Businesses ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Low	0	0	0.0%	0.0%	9.9%	11.7%	10.2%
Moderate	9	3,564	27.3%	32.9%	20.5%	22.2%	23.3%
Middle	13	1,889	39.4%	17.5%	23.6%	22.4%	25.1%
Upper	11	5,372	33.3%	49.6%	44.4%	42.7%	41.4%
Unknown ³	0	0	0.0%	0.0%	0.0%	0.1%	0.0%
Total	33	10,825	100.0%	100.0%	98.4%	99.1%	100.0%

¹ Aggregate loan data reflects all small business loan originations in the bank’s AA reported by all CRA filers. CRA data reports only business loans in amounts of \$1 million or less.
² The percentage of businesses in the AA is based on 2013 Dun & Bradstreet Data.
³ Does not include loans in tracts where the income level is unknown, which is 0.0% by number and 0.0% by dollar. Only includes loans with no tract location reported.
 (NOTE: Percentages may include rounding errors)

La Vernia Assessment Area

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

Within the assessment area, the bank’s borrower distribution performance is considered excellent. Due to the volume of HMDA lending in the assessment area, all product are analyzed collectively. The performance of aggregate lenders received more weight than the assessment

area’s demographics for families in the assessment area because it is more indicative of loan demand.

The following table depicts the ACS median family income for the San Antonio-New Braunfels, Texas MSA used for the analysis:

Income Level	2010 MSA
Median Income	\$58,222
Low-income	<\$ 29,111
Moderate-income	\$29,111 - \$46,577
Middle-income	\$46,578- \$69,865
Upper-income	≥ \$69,866

HMDA Lending

During 2012, the bank’s lending to low-income borrowers (25.0%) significantly outperformed the aggregate lending (2.8%) and the percentage of low-income families (15.5%) in the assessment area by number. However, by dollar the bank (3.6%) only outperformed the aggregate (1.4%). The bank’s lending to moderate-income borrowers by number (20.0%) outperformed aggregate (10.0%) and the percentage of moderate-income families (15.8%). By dollar volume, the bank (5.9%) lagged the aggregate (7.1%) and the demographic. The bank’s lending to middle-income borrowers underperformed compared to aggregate lenders and demographics. In upper-income census tracts, the bank exceeded the aggregate and demographic by dollar volume only.

In, 2013 the bank originated a larger percentage of home mortgage loans (5.0%) than the aggregate (2.5%); yet both the aggregate and the bank performance was below the percentage of low-income families in the assessment area (15.5%). By dollar volume, both the bank (0.8%) and the aggregate (1.0%) lagged the demographic. The bank’s lending to moderate-income borrowers (20.0%) outperformed the aggregate lenders (10.1%) and percentage of families (15.8%) by number. However, the bank (10.3%) compared less favorably to the demographic by dollar volume. Aggregate outperformed the bank by number and dollar volume in lending to middle-income borrowers, and slightly exceeded the demographic for middle-income families by number. The bank underperformed compared to the demographic of middle-income families. Both the bank and the aggregate outperformed the demographic of upper-income families.

The tables on the following pages illustrate the assessment area’s demographics and HMDA lending for the bank and aggregate lenders for 2012 and 2013

Distribution of 2012 HMDA Loans by Borrower Income Levels La Vernia Assessment Area							
Borrow Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Families ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	0	0	0.0%	0.0%	3.5%	1.6%	15.5%
Moderate	2	45	28.6%	6.2%	14.5%	10.2%	15.8%
Middle	0	0	0.0%	0.0%	25.6%	23.8%	20.1%
Upper	4	591	57.1%	80.8%	46.8%	56.2%	48.6%
Unknown	1	95	14.3%	13.0%	9.6%	8.2%	0.0%
Refinanced Loans							
Low	0	0	0.0%	0.0%	1.9%	1.1%	15.5%
Moderate	0	0	0.0%	0.0%	5.8%	3.9%	15.8%
Middle	0	0	0.0%	0.0%	12.8%	9.9%	20.1%
Upper	1	111	100.0%	100.0%	43.0%	44.5%	48.6%
Unknown	0	0	0.0%	0.0%	36.5%	40.7%	0.0%
Home Improvement Loans							
Low	5	34	41.7%	35.8%	5.8%	3.8%	15.5%
Moderate	2	10	16.7%	10.5%	8.4%	6.2%	15.8%
Middle	2	12	16.7%	12.6%	13.8%	9.8%	20.1%
Upper	2	14	16.7%	14.7%	70.7%	79.0%	48.6%
Unknown	1	25	8.3%	26.3%	1.3%	1.1%	0.0%
Total Home Mortgage Loans							
Low	5	34	25.0%	3.6%	2.8%	1.4%	15.5%
Moderate	4	55	20.0%	5.9%	10.0%	7.1%	15.8%
Middle	2	12	10.0%	1.3%	19.0%	17.0%	20.1%
Upper	7	716	35.0%	76.4%	45.8%	50.9%	48.6%
Unknown	2	120	10.0%	12.8%	22.3%	23.6%	0.0%
Total	20	937	100.0%	100.0%	100.0%	100.0%	100.0%

¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers.
² The percentage of families is based on 2010 ACS data.
³ Totals do not foot, as multi-family loans are not included in the Borrower Distribution Analysis.
(NOTE: Percentages may include rounding errors)

Distribution of 2013 HMDA Loans by Borrower Income Levels La Vernia Assessment Area							
Borrow Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Families ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	0	0	0.0%	0.0%	2.5%	1.1%	15.5%
Moderate	1	15	14.3%	4.1%	12.3%	8.4%	15.8%
Middle	0	0	0.0%	0.0%	25.8%	23.4%	20.1%
Upper	6	351	85.7%	95.9%	49.4%	58.4%	48.6%
Unknown	0	0	0.0%	0.0%	10.0%	8.7%	0.0%
Refinanced Loans							
Low	0	0	0.0%	0.0%	2.4%	0.9%	15.5%
Moderate	1	38	50.0%	16.5%	7.2%	3.0%	15.8%
Middle	0	0	0.0%	0.0%	15.0%	8.0%	20.1%
Upper	1	193	50.0%	83.5%	40.8%	27.1%	48.6%
Unknown	0	0	0.0%	0.0%	34.6%	60.9%	0.0%
Home Improvement Loans							
Low	1	5	9.1%	8.1%	4.5%	3.1%	15.5%
Moderate	2	15	18.2%	24.2%	10.9%	6.4%	15.8%
Middle	2	10	18.2%	16.1%	18.6%	12.6%	20.1%
Upper	6	32	54.5%	51.6%	63.3%	73.5%	48.6%
Unknown	0	0	0.0%	0.0%	2.6%	4.4%	0.0%
Total Home Mortgage Loans							
Low	1	5	5.0%	0.8%	2.5%	1.0%	15.5%
Moderate	4	68	20.0%	10.3%	10.1%	5.6%	15.8%
Middle	2	10	10.0%	1.5%	21.0%	15.4%	20.1%
Upper	13	576	65.0%	87.4%	46.3%	42.4%	48.6%
Unknown	0	0	0.0%	0.0%	20.1%	35.5%	0.0%
Total	20	659	100.0%	100.0%	100.0%	100.0%	100.0%
¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. ² The percentage of families is based on 2010 ACS data. ³ Totals do not foot, as multi-family loans are not included in the Borrower Distribution Analysis. (NOTE: Percentages may include rounding errors)							

Small Business Lending

To determine the bank's performance, the bank's small business lending is compared to the number of small businesses located in the assessment area. The bank is not required to report small business data due to its size. However, the bank's lending is compared to the performance of aggregate lenders that report small business loan data to obtain a sense of loan demand.

D&B data indicates that 92.2% of all local businesses have revenues that do not exceed \$1 million per year. According to 2013 aggregate small business data, 46.8% of reported loans by

number and 35.9% by dollar volume were to businesses with annual revenues of \$1 million or less. The remaining loans were to businesses that either had revenues exceeding \$1 million or had unknown revenues. The bank originated a higher percentage of loans to small businesses by number (100.0%) and volume (100.0%) than aggregate.

The tables below further details the bank’s performance, aggregate lenders, and assessment area’s demographics.

Distribution of 2013 Business Loans by Revenue Size La Vernia Assessment Area							
Business Revenue by Size ¹	Bank Loans				Aggregate CRA Data ²		% of Businesses ³
	#	\$(000s)	# %	\$ %	# %	\$ %	
\$1MM or less	6	248	100.0%	100.0%	46.8%	35.9%	92.2%
Over \$1MM	0	0	0.0%	0.0%	Not Reported		3.8%
Not Known	0	0	0.0%	0.0%			4.0%
Total	6	248	100.0%	100.0%			100.0%

¹ This analysis focuses on the bank's lending to "small businesses" as defined by the CRA, which are those businesses with gross annual revenues of \$1 million or less.
² Aggregate loan data reflects all loan originations in the bank's AA reported by all CRA filers. CRA data reports only business loans in amounts of \$1 million or less.
³ The percentage of businesses in the AA is based on 2013 Dun & Bradstreet Data.
 (NOTE: Percentages may include rounding errors)

Another way to gauge the bank’s small business lending performance is to review the data by loan amount. Small businesses typically require smaller dollar credits. In this regard, it is noted that 83.3% of the bank’s commercial loans were made in loan amounts of \$100,000 or less.

Distribution of 2013 Small Business Loans and Loans to Small Businesses La Vernia Assessment Area				
By Loan Size	#	%	\$(000s)	%
\$100,000 or less	5	83.3%	130	52.4%
\$100,001 - \$250,000	1	16.7%	118	47.6%
\$250,001 - \$1 Million	0	0.0%	0	0.0%
Total	6	100.0%	248	100.0%
By Loan Size and Revenue \$1 Million or Less				
\$100,000 or less	5	83.3%	130	52.4%
\$100,001 - \$250,000	1	16.7%	118	47.6%
\$250,001 - \$1 Million	0	0.0%	0	0.0%
Total	6	100.0%	248	100.0%

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution by the income level of geographies within the assessment area is poor. Loans were generally made in close proximity to the bank's branch and there were no conspicuous gaps or anomalies in the lending patterns. For this analysis, the geographic distribution of the bank's lending was compared to the percentage of owner-occupied units and the percentage of other banks, which is weighted more heavily when assessing performance. In addition, the bank's small bank performance was given more weight than its HMDA performance.

HMDA Lending

In 2012, the bank did not extend any loans in low-income census tracts. However, due to the low demand for loans as reflected by the aggregate lending by number (0.7%), dollar (0.6%) and percentage of owner-occupied housing units (1.6%), the absence of lending in low-income census tracts is acceptable. The bank did not originate any loans in moderate-income census tracts; however, the lending of the aggregate by number (5.3%) and dollar (3.9%) suggests there is some demand. The aggregate did not exceed the level of owner-occupied housing units in moderate-income census tracts. The bank's performance in middle-income census tracts exceeded the aggregate and percentage of owner-occupied housing units by both dollar and number volume. The bank lagged the aggregate by number and dollar volume in lending in upper-income census tracts. The bank originated a lower percentage of owner-occupied housing by number but not by dollar volume in upper-income census tracts.

During 2013, the bank did not extend any loans in low-income census tracts. However, due to the low demand for loans as reflected by the aggregate lending (0.4%) by number, dollar (0.3%), and percentage of owner-occupied housing units (1.6%), the absence of lending in low-income census tracts is acceptable. The bank's lending in moderate-income census (15.0%) outperformed aggregate by number volume (6.0%) but not dollar volume. The bank outperformed aggregate by dollar and number volume in loans to middle-income census tracts. In addition, the bank's lending was greater than the percentage of owner-occupied units by number and dollar volumes. Aggregate lenders outperformed the bank in lending in upper-income census tracts by dollar and number volume. The bank also underperformed when compared to the demographic by number but not by dollar volume in upper-income census tracts.

The tables on the following pages illustrate the assessment area's demographics and HMDA lending for the bank and aggregate lenders for 2012 and 2013.

Distribution of 2012 HMDA Loans by Income Level of Geography							
La Vernia Assessment Area							
Census Tract Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Owner Occupied Units ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	0	0	0.0%	0.0%	1.1%	1.1%	1.6%
Moderate	0	0	0.0%	0.0%	5.9%	3.9%	12.7%
Middle	5	226	71.4%	30.9%	27.0%	25.2%	42.0%
Upper	2	505	28.6%	69.1%	65.9%	69.9%	43.8%
Home Refinance Loans							
Low	0	0	0.0%	0.0%	0.2%	0.1%	1.6%
Moderate	0	0	0.0%	0.0%	4.6%	3.8%	12.7%
Middle	1	111	100.0%	100.0%	21.5%	20.6%	42.0%
Upper	0	0	0.0%	0.0%	73.6%	75.5%	43.8%
Home Improvement Loans							
Low	0	0	0.0%	0.0%	1.0%	0.4%	1.6%
Moderate	0	0	0.0%	0.0%	6.4%	8.1%	12.7%
Middle	7	77	58.3%	81.1%	30.2%	32.5%	42.0%
Upper	5	18	41.7%	18.9%	62.4%	59.0%	43.8%
Multifamily Loans							% MF Units
Low	0	0	0.0%	0.0%	0.0%	0.0%	4.2%
Moderate	0	0	0.0%	0.0%	0.0%	0.0%	26.9%
Middle	0	0	0.0%	0.0%	50.0%	70.1%	42.8%
Upper	0	0	0.0%	0.0%	50.0%	29.9%	26.2%
Total Home Mortgage Loans							
Low	0	0	0.0%	0.0%	0.7%	0.6%	1.6%
Moderate	0	0	0.0%	0.0%	5.3%	3.9%	12.7%
Middle	13	414	65.0%	44.2%	24.5%	23.1%	42.0%
Upper	7	523	35.0%	55.8%	69.5%	72.4%	43.8%
Total	20	937	100.0%	100.0%	100.0%	100.0%	100.0%
¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. ² The percentage of housing units by tract based on 2010 ACS data. (NOTE: Percentages may include rounding errors.)							

Distribution of 2013 HMDA Loans by Income Level of Geography La Vernia Assessment Area							
Census Tract Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Owner Occupied Units ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	0	0	0.0%	0.0%	0.4%	0.3%	1.6%
Moderate	1	15	14.3%	4.1%	6.3%	4.5%	12.7%
Middle	3	119	42.9%	32.5%	26.9%	24.3%	42.0%
Upper	3	232	42.9%	63.4%	66.3%	70.8%	43.8%
Home Refinance Loans							
Low	0	0	0.0%	0.0%	0.3%	0.1%	1.6%
Moderate	0	0	0.0%	0.0%	5.5%	12.6%	12.7%
Middle	1	193	50.0%	83.5%	22.8%	21.5%	42.0%
Upper	1	38	50.0%	16.5%	71.4%	65.7%	43.8%
Home Improvement Loans							
Low	0	0	0.0%	0.0%	1.6%	0.6%	1.6%
Moderate	2	7	18.2%	11.3%	6.8%	6.1%	12.7%
Middle	5	22	45.5%	35.5%	37.3%	40.1%	42.0%
Upper	4	33	36.4%	53.2%	54.3%	53.2%	43.8%
Multifamily Loans							% MF Units
Low	0	0	0.0%	0.0%	14.3%	3.2%	4.2%
Moderate	0	0	0.0%	0.0%	42.9%	12.6%	26.9%
Middle	0	0	0.0%	0.0%	28.6%	63.6%	42.8%
Upper	0	0	0.0%	0.0%	14.3%	20.6%	26.2%
Total Home Mortgage Loans							
Low	0	0	0.0%	0.0%	0.4%	0.3%	1.6%
Moderate	3	22	15.0%	3.3%	6.0%	8.6%	12.7%
Middle	9	334	45.0%	50.7%	25.6%	23.5%	42.0%
Upper	8	303	40.0%	46.0%	68.0%	67.6%	43.8%
Total	20	659	100.0%	100.0%	100.0%	100.0%	100.0%
¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. ² The percentage of housing units by tract based on 2010 ACS data. (NOTE: Percentages may include rounding errors.)							

Small Business Lending

To determine the bank's performance, the bank's small business lending is compared to the number of small businesses located in the assessment area. The bank is not required to report small business data due to its size. However, the bank's lending is compared to the performance of aggregate lenders that report small business loan data to obtain a sense of loan demand. The bank did not originate in loans in low-income census tracts; however, the aggregate level of lending by number (2.5%), volume (1.7%), and the percentage of businesses in the area (2.2%)

suggest low demand and therefore the absence of lending in low-income census tracts is acceptable. In addition, the bank did not originate any loans in moderate-income census tracts; however, the aggregate level of lending by number (15.2%), dollar (18.2%), and the percentage of businesses in the census tract indicate that there is demand. The bank performed more favorably than aggregate lenders by number volume and approximated the level of lending by dollar volume in middle-income census tracts. By dollar volume, the bank exceeded the aggregate level of lending but did not exceed the aggregate by number volume in upper-income census tracts.

Distribution of 2013 Business Loans by Income Level of Geography							
La Vernia Assessment Area							
Census Tract Income Level	Bank Loans				Aggregate CRA Data ¹		% of Businesses ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Low	0	0	0.0%	0.0%	2.5%	1.7%	2.2%
Moderate	0	0	0.0%	0.0%	15.2%	18.2%	16.3%
Middle	4	105	66.7%	42.5%	40.7%	42.9%	41.9%
Upper	2	142	33.3%	57.5%	38.1%	34.2%	39.6%
Total	6	247	100.0%	100.0%	96.5%	97.0%	100.0%

¹ Aggregate loan data reflects all small business loan originations in the bank's AA reported by all CRA filers. CRA data reports only business loans in amounts of \$1 million or less.
² The percentage of businesses in the AA is based on 2013 Dun & Bradstreet Data.
 (NOTE: Percentages may include rounding errors)

Nixon Assessment Area

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The bank's borrower distribution performance is considered excellent. Due to the volume of HMDA lending in the assessment area, all product are analyzed collectively. As previously stated, in reaching this conclusion, more weight is placed on the bank's small business lending performance because of the larger relative volume of such lending; however, in this assessment area, due to the limited small business lending volume the conclusion is based on the bank's HMDA lending. In addition, the performance of aggregate lenders was weighted more heavily than the assessment area's demographics families and small businesses in the assessment area because it is more indicative of the loan demand. The least amount of weight was given to this assessment area since it represents the lowest volume of the bank's lending efforts.

For analysis purposes, income levels are determined using the State Nonmetropolitan median family income. The following table depicts the referenced income level ranges:

Income Level	2010 State Nonmetroplitan
Median Income	\$48,160
Low-income	< \$24,080
Moderate-income	\$24,080 - \$38,527
Middle-income	\$38,528 - \$57,791
Upper-income	≥ \$57,792

HMDA Lending

During 2012, the bank’s lending to low-income borrowers (9.1%) surpassed the aggregate level of lending (2.6%) by number, but was lower than the percentage of area low-income families (24.4%). In addition, the bank’s lending by dollar volume (2.9%) surpassed the aggregate (0.9%) but not the percentage of low-income families. The bank’s lending to moderate-income borrowers (9.1%) was slightly lower than the level of aggregate lending (9.3%) and was lower than the percentage of moderate-income families (18.2%) by number volume. By dollar volume, the aggregate lenders (4.1%) outperformed the bank (1.2%). Conversely, the bank exceeded the demographic and the aggregate in its lending to middle-income borrowers by number. Both the aggregate and the bank outperformed the demographics in lending to upper-income borrowers.

During 2013, the bank’s lending by number to low-income borrowers (12.5%) exceeded the aggregate (2.9%) but was not the percentage of area low-income families (24.4%). Lending to moderate-income borrowers (25.0%) exceeded both the aggregate (12.3%) and the percentage of moderate-income families (18.2%). The aggregate lenders outperformed the bank’s lending to middle-income borrowers. The bank compared more favorably to demographic by number and dollar volume in upper-income census tracts.

The tables on the following pages illustrate the assessment area’s demographics and HMDA lending for the bank and aggregate lenders for 2012 and 2013.

Distribution of 2012 HMDA Loans by Borrower Income Levels Nixon Assessment Area							
Borrow Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Families ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	0	0	0.0%	0.0%	2.8%	1.3%	24.4%
Moderate	0	0	0.0%	0.0%	10.3%	6.2%	18.2%
Middle	0	0	0.0%	0.0%	23.0%	18.9%	18.0%
Upper	0	0	0.0%	0.0%	55.9%	66.4%	39.4%
Unknown	0	0	0.0%	0.0%	8.0%	7.2%	0.0%
Refinanced Loans							
Low	0	0	0.0%	0.0%	1.1%	0.4%	24.4%
Moderate	0	0	0.0%	0.0%	7.4%	2.9%	18.2%
Middle	0	0	0.0%	0.0%	18.1%	12.3%	18.0%
Upper	1	120	100.0%	100.0%	68.1%	76.4%	39.4%
Unknown	0	0	0.0%	0.0%	5.3%	8.1%	0.0%
Home Improvement Loans							
Low	1	5	10.0%	9.6%	5.7%	3.0%	24.4%
Moderate	1	2	10.0%	3.8%	8.6%	1.3%	18.2%
Middle	3	12	30.0%	23.1%	17.1%	6.1%	18.0%
Upper	5	33	50.0%	63.5%	68.6%	89.6%	39.4%
Unknown	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Total Home Mortgage Loans							
Low	1	5	9.1%	2.9%	2.6%	0.9%	24.4%
Moderate	1	2	9.1%	1.2%	9.3%	4.1%	18.2%
Middle	3	12	27.3%	7.0%	20.9%	13.8%	18.0%
Upper	6	153	54.5%	89.0%	60.0%	61.1%	39.4%
Unknown	0	0	0.0%	0.0%	7.2%	20.1%	0.0%
Total	11	172	100.0%	100.0%	100.0%	100.0%	100.0%

¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers.
² The percentage of families is based on 2010 ACS data.
³ Totals do not foot, as multi-family loans are not included in the Borrower Distribution Analysis.
(NOTE: Percentages may include rounding errors)

Distribution of 2013 HMDA Loans by Borrower Income Levels Nixon Assessment Area							
Borrow Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Families ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	0	0	0.0%	0.0%	2.8%	1.2%	24.4%
Moderate	0	0	0.0%	0.0%	13.3%	8.5%	18.2%
Middle	0	0	0.0%	0.0%	23.4%	17.1%	18.0%
Upper	3	148	100.0%	100.0%	52.8%	57.0%	39.4%
Unknown	0	0	0.0%	0.0%	7.8%	16.2%	0.0%
Refinanced Loans							
Low	0	0	0.0%	0.0%	2.6%	1.7%	24.4%
Moderate	0	0	0.0%	0.0%	7.8%	7.2%	18.2%
Middle	1	42	100.0%	100.0%	21.7%	15.1%	18.0%
Upper	0	0	0.0%	0.0%	53.0%	57.6%	39.4%
Unknown	0	0	0.0%	0.0%	14.8%	18.4%	0.0%
Home Improvement Loans							
Low	2	7	16.7%	9.1%	4.4%	0.4%	24.4%
Moderate	4	12	33.3%	15.6%	20.0%	9.3%	18.2%
Middle	1	5	8.3%	6.5%	15.6%	8.3%	18.0%
Upper	5	53	41.7%	68.8%	53.3%	71.0%	39.4%
Unknown	0	0	0.0%	0.0%	6.7%	11.1%	0.0%
Total Home Mortgage Loans							
Low	2	7	12.5%	2.6%	2.9%	1.3%	24.4%
Moderate	4	12	25.0%	4.5%	12.3%	7.6%	18.2%
Middle	2	47	12.5%	17.6%	21.7%	15.2%	18.0%
Upper	8	201	50.0%	75.3%	52.2%	54.8%	39.4%
Unknown	0	0	0.0%	0.0%	11.0%	21.1%	0.0%
Total	16	267	100.0%	100.0%	100.0%	100.0%	100.0%
¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. ² The percentage of families is based on 2010 ACS data. ³ Totals do not foot, as multi-family loans are not included in the Borrower Distribution Analysis. (NOTE: Percentages may include rounding errors)							

Small Business Lending

To determine performance, the bank's small business lending is compared to the number of small businesses located in the assessment area. The bank is not required to report small business data due to its size. However, the bank's lending is compared to the performance of aggregate lenders that report small business loan data to obtain a sense of loan demand.

D&B data indicates that 89.6% of all local businesses have revenues that do not exceed \$1 million per year. According to 2013 aggregate small business data, 54.4% of reported loans

were to businesses with annual revenues of \$ 1 million or less. The remaining loans were to businesses that either had revenues exceeding \$1 million or had unknown revenues. A meaningful analysis could not be performed in regards to small business lending in this assessment area due to the low volume of originations. During the sample period, one loan was originated in this assessment area to a small business with revenues of less than \$100 thousand.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution by the income level of geographies within the assessment area is excellent. Loans were generally made in close proximity to the bank's branch and there were no conspicuous gaps or anomalies in the lending patterns.

There are no low-income census tracts in this assessment area. The analysis of the bank's geographic performance is based upon the lending in the bank's moderate-, middle-, and upper-income census tracts. Due to the volume of HMDA lending in the assessment area, all product are analyzed collectively. In this assessment area, due to the limited small business lending volume the conclusion is based on the bank's HMDA lending.

HMDA Lending

During 2012, the bank's lending in moderate-income census tracts (90.9%) exceeded the aggregate (22.0%) and the percentage of owner-occupied units (23.3%) by number. In addition, the bank's lending in moderate-income census tracts (97.1%) exceeded the aggregate (14.8%) and percentage of owner-occupied units by dollar. Neither the bank nor the aggregate outperformed demographic by number or dollar volume in middle-income census tract lending. The bank did not originate any loans in upper-income census tracts.

The bank's 2013 lending in moderate-income census tracts (56.3%) exceeded the aggregate level of lending (25.3%) and the percentage of owner-occupied housing units (23.3%) by number. However, the aggregate lenders (23.1%) outperformed the bank (19.1%) The bank's lending was below the demographic by dollar volume (23.3%). The bank exceeded both the aggregate and the demographic by dollar volume only in middle-income census tract lending. Only aggregate outperformed the demographics in loans within upper-income census tracts.

The tables below illustrate the assessment area's demographics and HMDA lending for the bank and aggregate lenders for 2012 and 2013.

Distribution of 2012 HMDA Loans by Income Level of Geography							
Nixon Assessment Area							
Census Tract Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Owner Occupied Units ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Moderate	0	0	0.0%	0.0%	17.4%	18.4%	23.3%
Middle	0	0	0.0%	0.0%	40.4%	43.3%	52.2%
Upper	0	0	0.0%	0.0%	24.4%	38.2%	24.6%
Unknown	0	0	0.0%	0.0%	17.8%	0.2%	0.0%
Home Refinance Loans							
Low	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Moderate	1	120	100.0%	100.0%	26.6%	18.2%	23.3%
Middle	0	0	0.0%	0.0%	29.8%	30.8%	52.2%
Upper	0	0	0.0%	0.0%	43.6%	51.0%	24.6%
Unknown ³	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Home Improvement Loans							
Low	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Moderate	9	47	90.0%	90.4%	40.0%	15.7%	23.3%
Middle	1	5	10.0%	9.6%	40.0%	51.6%	52.2%
Upper	0	0	0.0%	0.0%	20.0%	32.7%	24.6%
Unknown ³	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Multifamily Loans							% MF Units
Low	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Moderate	0	0	0.0%	0.0%	0.0%	0.0%	42.9%
Middle	0	0	0.0%	0.0%	66.7%	81.7%	50.8%
Upper	0	0	0.0%	0.0%	0.0%	0.0%	6.3%
Unknown ³	0	0	0.0%	0.0%	33.3%	18.3%	0.0%
Total Home Mortgage Loans							
Low	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Moderate	10	167	90.9%	97.1%	22.0%	14.8%	23.3%
Middle	1	5	9.1%	2.9%	37.7%	42.6%	52.2%
Upper	0	0	0.0%	0.0%	29.0%	35.1%	24.6%
Unknown ³	0	0	0.0%	0.0%	11.3%	7.5%	0.0%
Total	11	172	100.0%	100.0%	100.0%	100.0%	100.0%

¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers.
² The percentage of housing units by tract based on 2010 ACS data.
³ Only includes loans with unreported geocode information. Does not include loans in tracts where the income category is 'unknown', which is 0.0 % for the bank and 11.3% for aggregate. (NOTE: Percentages may include rounding errors.)

Distribution of 2013 HMDA Loans by Income Level of Geography Nixon Assessment Area							
Census Tract Income Level	Bank Loans				Aggregate HMDA Data ¹		% of Owner Occupied Units ²
	#	\$(000s)	# %	\$ %	# %	\$ %	
Home Purchase Loans							
Low	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Moderate	0	0	0.0%	0.0%	21.1%	19.2%	23.3%
Middle	3	148	100.0%	100.0%	54.6%	48.1%	52.2%
Upper	0	0	0.0%	0.0%	23.9%	32.6%	24.6%
Unknown ³	0	0	0.0%	0.0%	0.5%	0.0%	0.0%
Home Refinance Loans							
Low	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Moderate	0	0	0.0%	0.0%	27.0%	28.9%	23.3%
Middle	1	42	100.0%	100.0%	27.0%	21.4%	52.2%
Upper	0	0	0.0%	0.0%	46.1%	49.6%	24.6%
Home Improvement Loans							
Low	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Moderate	9	51	75.0%	66.2%	37.8%	27.0%	23.3%
Middle	2	25	16.7%	32.5%	46.7%	39.9%	52.2%
Upper	1	1	8.3%	1.3%	15.6%	33.1%	24.6%
Multifamily Loans							% MF Units
Low	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Moderate	0	0	0.0%	0.0%	60.0%	23.7%	42.9%
Middle	0	0	0.0%	0.0%	40.0%	76.3%	50.8%
Upper	0	0	0.0%	0.0%	0.0%	0.0%	6.3%
Total Home Mortgage Loans							
Low	0	0	0.0%	0.0%	0.0%	0.0%	0.0%
Moderate	9	51	56.3%	19.1%	25.3%	23.1%	23.3%
Middle	6	215	37.5%	80.5%	45.2%	40.0%	52.2%
Upper	1	1	6.3%	0.4%	29.2%	36.7%	24.6%
Unknown ³	0	0	0.0%	0.0%	0.3%	0.2%	0.0%
Total	16	267	100.0%	100.0%	100.0%	100.0%	100.0%
¹ Aggregate loan data reflects all loan originations in the bank's AA reported by all HMDA LAR filers. ² The percentage of housing units by tract based on 2010 ACS data. ³ Only includes loans with unreported geocode information. Does not include loans in tracts where the income category is 'unknown', which is 0.0% for the bank and 0.3% for aggregate. (NOTE: Percentages may include rounding errors.)							

Small Business Lending

D&B data indicates that 19.1% of all area businesses are located in moderate-income census tracts. Aggregate lenders originated 18.1% by number and 12.6% by volume in moderate-income census tracts. The bank originated one loan for \$12 thousand in a moderate-income census tract during the sample period. As a result, a meaningful analysis could not be performed in regards to small business lending in this assessment area due to the low volume of originations.

Detroit Assessment Area

Limited Scope Review

The bank operates one branch in the assessment area. As of June 30, 2014, the bank had the lowest deposit market share (1.7%) out of the 10 FDIC insured financial institutions in the market. There are no low-income census tracts and 25.0% of the census tracts are moderate-income. Of the 17,420 families living in the assessment area, 39.1% are low- or moderate-income and 12.6% live below the poverty level. There are 3,138 business in the assessment area of which 90.4% report revenues of \$1 million or less.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TEST

Overall lending levels in this assessment area were below those in the bank's full scope assessment areas. Conclusions regarding performance in this assessment area did not influence the institution's overall rating.

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small, relatively permanent statistical subdivision of a county. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts average about 4,000 inhabitants, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to the population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All agencies have adopted the following language: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- i. Low-or moderate-income geographies;
- ii. Designated disaster areas; or
- iii. Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family

households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of the applicants; the amount of loan requested; and the disposition of the application (for example, approved, denied, or withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancing of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more, in the case of a geography.