

PUBLIC DISCLOSURE

August 9, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Texas
RSSD # 925653

306 West Wall, Suite 100
Midland, Texas 79701

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 RATING

This Institution is rated: Satisfactory
The Lending Test is rated: Satisfactory
The Community Development Test is rated: Satisfactory

Bank of Texas (the bank) is rated **Satisfactory**. This rating is based on the following conclusions with respect to the performance criteria under the Lending and Community Development Tests in accordance with the Federal Financial Institutions Examination Council's (FFIEC's) Interagency Examination Procedures for Intermediate Small Bank (ISB Examination Procedures).

- The bank's average net loan-to-deposit ratio (NLTD) is more than reasonable given the bank's size, financial condition, and credit needs of the assessment areas it serves.
- A substantial majority of the bank's lending is originated within its delineated assessment areas.
- A reasonable penetration of loans among businesses of different sizes.
- A reasonable dispersion of loans throughout the bank's assessment areas.
- An adequate responsiveness to the community development needs in its assessment areas considering the bank's capacity and the availability of community development opportunities.

INSTITUTION

Scope of Examination

The evaluation was conducted using the FFIEC's ISB Examination Procedures to assess the bank's Community Reinvestment Act (CRA) performance in meeting the credit and community development needs. The FFIEC's ISB Examination Procedures require the evaluation to be conducted through two separate tests: Lending Test and Community Development Test. The evaluation considered performance context, including the bank's asset size, financial condition, business strategy, and market competition, as well as the demographic and economic characteristics of the assessment areas the bank serves and their respective credit and community development needs.

The bank's performance was assessed using the full-scope review procedures for two of the bank's delineated assessment areas: El Paso Metropolitan Assessment Area and Midland Metropolitan Assessment Area. Approximately 93.5 percent of lending activity (by number of loans), 93.7 percent of the total deposits, and 66.7 percent of total branches were evaluated through the full-scope reviews performed. A limited-scope review was conducted for the Kent-Dickens-Stonewall Assessment Area, the remaining delineated assessment area.

The evaluation considered the following data:

- The bank's 16-quarter average NLTD ratio, as well as the NLTD ratio for two similarly situated banks.
- The small business lending review consisted of a statistically derived sample of 77 small business loans taken from a universe of 123 loans originated or renewed between January 1, 2020 and December 31, 2020.
- Community development loans, investments, and services provided by the bank since the previous CRA evaluation as of February 27, 2017.
- Information provided by two members of the communities served by the bank to further assess the credit and community development needs and economic conditions of the full-scope delineated assessment areas.

The bank's response to written complaints with respect to its CRA performance was not evaluated because the institution has not received any such complaints since the previous evaluation.

Description of Institution

Bank of Texas is a commercial bank headquartered in Midland, Texas. The bank has the following characteristics:

- The bank is owned wholly by Tall City Bancshares, Inc. Neither the bank nor holding company have any subsidiaries or affiliates.
- As of March 31, 2021, the bank reported total assets of approximately \$436.7 million, gross loans of \$369.8 million, total deposits of \$343.3 million, and a net loan-to-deposit ratio of 106.6 percent.
- Since the previous CRA evaluation dated February 27, 2017 the bank transitioned from a small bank to an ISB for CRA evaluation purposes.

- The bank focuses on commercial lending products, which make up 90.7 percent of the bank's portfolio.
- The bank has delineated three assessment areas: El Paso, Midland, and the Kent-Dickens-Stonewall Assessment Area. The assessment areas have not changed since the prior evaluation.
- The bank operates a full-service branch at each assessment area. One branch is located in a low-income census tract, one branch located in a moderate-income census tract, and one branch located in a middle-income census tract.
- The bank's hours of operation are similar and consistent with other banks in the region.
- The majority of the bank's lending by dollar volume is originated in the El Paso Metropolitan Assessment Area, while the majority of deposits come from the Midland Metropolitan Assessment Area.

The following table reflects the loan portfolio mix:

Loan Portfolio Mix as of March 31, 2021		
	\$(000)	%
Residential RE	12,777	3.6
Commercial	335,305	90.7
Ag	21,197	5.7
Consumer	530	0.1
Other	29	0.1
Gross Loans	369,838	
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>		

The bank's ability to meet the credit needs of the community has not been hampered by its capacity to lend, financial condition and size, product offerings, prior performance, legal impediments, or other factors. The Federal Reserve Bank of Dallas rated the bank's CRA performance as *Satisfactory* at the previous performance evaluation dated February 27, 2017, which was conducted in accordance with the FFIEC's Interagency Procedures for Small Banks due to the bank's asset size.

Conclusions with Respect to Performance Tests

LENDING TEST

The evaluation first discusses the bank’s overall performance based on the average NLTD ratio and level of lending within the bank’s delineated assessment areas. This is followed by a more in-depth discussion of the bank’s record of lending in each full-scope assessment area.

The bank’s overall performance under the lending test is *Satisfactory*, as the institution reasonably meets the small business credit needs of its assessment areas. The bank’s average NLTD is more than reasonable and reflects the institution’s desire to extend credit. In addition, the bank extended a substantial majority of its small business loans inside its delineated assessment areas and the bank’s distribution of loans to small businesses of different revenue sizes is reasonable. Lastly, the bank’s lending geographic dispersion is also reasonable given performance context.

Net Loan-to-Deposit Ratio

The general purpose of the 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 average NLTD ratio is used to determine the reasonableness of lending in light of performance context, such as the bank’s capacity to lend, the availability of lending opportunities, the demographic and economic factors present in the assessment areas, and in comparison, to similarly situated Federal Deposit Insurance Corporation (FDIC) insured institutions.

The bank’s 16-quarter average NLTD ratio, at 96.0 percent, is more than reasonable. The bank’s 16-quarter average NLTD is higher than that of the similarly situated banks, which ranged from 74.8 percent to 80.0 percent.

Lending in Assessment Area

This performance criterion evaluates the percentage of lending extended inside and outside of the bank’s delineated assessment areas. As shown in the table below, the bank extended a substantial majority of its loans both by number and dollar volume within its three assessment areas.

Lending Inside and Outside the Assessment Areas								
Loan Type	Inside Assessment Areas				Outside Assessment Areas			
	#	%	\$000s	%	#	%	\$000s	%
Small Business	73	94.8	22,976	94.7	4	5.2	1,294	5.3
Total	73	94.8	22,976	94.7	4	5.2	1,294	5.3

The remaining analyses in this evaluation will be based on loans made inside the bank’s assessment areas.

Lending to Businesses of Different Sizes

This performance criterion evaluates the bank's lending to businesses of different revenue sizes. The bank's small business lending exhibits an overall reasonable penetration of small businesses in both of the two full-scope assessment areas. Detailed data supporting this analysis can be seen in the Conclusions with Respect to Performance Tests section of the respective assessment areas.

Geographic Distribution of Loans

This performance criterion evaluates the bank's distribution of lending within its assessment areas by income level of census tracts. The bank's overall geographic distribution of loans among low- and moderate-income geographies reflects a reasonable dispersion throughout the assessment areas. Loans were generally made in close proximity to the bank's branches, and no gaps or lapses in lending were identified within the assessment areas. A substantial majority of the bank's small business loans were originated in the El Paso Assessment Area. Lending levels, both by number and dollar volume, in Midland were very low. Therefore, greater weight was given to the bank's lending performance in El Paso when drawing conclusions regarding overall lending performance. Data supporting this analysis can be seen in detail in the Conclusions with Respect to Performance Tests section of the respective assessment areas.

COMMUNITY DEVELOPMENT TEST

The Community Development Test evaluates the bank's responsiveness to the community development needs of the institution's assessment areas through its originations and participations in community development loans, investments, and services, considering the bank's capacity and availability of such opportunities within the delineated assessment areas.

The bank's responsiveness to community development needs is rated *Satisfactory*. This is the bank's first CRA evaluation under the ISB Examination Procedures, where the bank's community development activity was evaluated. Additionally, the COVID-19 pandemic hindered the bank from identifying and engaging in traditional community development services and opportunities due to social distancing restrictions and limited staffing capacity. Considering these challenges, the bank demonstrated an adequate responsiveness to the community development needs of its assessment areas.

The majority of community development activities were extended in the El Paso Metropolitan Assessment Area, which aligns with the bank's business strategy. There were no community development activities completed in the Midland Metropolitan Assessment Area. In assessing the bank's overall community development performance, greater weight was given in the El Paso Metropolitan Assessment Area. Data supporting this analysis can be seen in detail in the separate assessment area discussions. The table below depicts a summary of the bank's total community development activities since the last CRA evaluation.

COMMUNITY DEVELOPMENT ACTIVITIES									
Purpose	Community Development Loans		Qualified Investments						Community Development Services (Hours)
			Investments		Donations		Total Investments		
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	
Affordable Housing	0	0	0	0	0	0	0	0	0
Community Services	0	0	0	0	13	16,463	0	0	39
Economic Development	0	0	0	0	0	0	0	0	0
Revitalization and Stabilization	2	353,727	0	0	0	0	0	0	0
Totals	2	353,727	0	0	13	16,463	0	0	39

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, and established policies and procedures are designed to ensure ongoing compliance.

EL PASO METROPOLITAN ASSESSMENT AREA (Full-Scope Review)

Description of Institution's Operations in El Paso Metropolitan Assessment Area

The El Paso Metropolitan Assessment Area includes the entirety of El Paso County, which is part of the El Paso, TX Metropolitan Statistical Area (MSA). The El Paso, TX MSA also includes Hudspeth County, which is excluded from the bank's assessment area delineation.

- The bank operates one branch located in a low-income census tract in the assessment area.
- According to the June 30, 2021 FDIC Deposit Market Share Report, 15 federally insured depository institutions operate 90 branches, holding deposits of \$11.2 billion, within the assessment area. The bank ranked 13th in deposit market share, with \$72.8 million or 0.7 percent of deposits within the assessment area. Approximately, 20.9 percent of the bank's total deposits come from the El Paso Metropolitan Assessment Area.
- Primary competitors in the market include Wells Fargo Bank, NA, Weststar Bank, and JPMorgan Chase Bank, NA, with 29.2 percent, 19.8 percent, and 16.7 percent of the total deposits in the assessment area, respectively.
- An interview was conducted with an individual from a community development organization serving the assessment area to further understand the credit needs of the community, the responsiveness of area banks in meeting those credit needs, and the local economic conditions.

Demographic Characteristics

- According to the United States Census Bureau (U.S. Census), the assessment area population in 2015 was 831,095, which represents a 3.8 percent increase since 2010.
- The major municipality in the assessment area is the city of El Paso which also serves as the county seat.
- A community contact indicated that a large portion of the small business owners in the assessment area are immigrants.

Income Characteristics

- According to the 2015 American Community Survey (ACS), the assessment area consists of 161 census tracts: 10 (6.2 percent) are low-income tracts, 54 (33.5 percent) are moderate-income tracts, 54 (33.5 percent) are middle-income tracts, 42 (26.1 percent) are upper-income tracts, and 1 (0.6 percent) is an unknown-income census tract.
- There are approximately 194,964 families in the assessment area. By family income, approximately 22.3 percent of these families are classified as low-income, 17.4 percent are moderate-income, 19.1 percent are middle-income, and 41.2 percent are upper-income families.
- Of the families in the assessment area, 19.6 percent live below poverty, which is higher than the family poverty rate for the state of Texas, at 13.5 percent.
- According to Dun & Bradstreet (D&B) data, 28,027 businesses operated in the assessment area and 92.7 percent of those reported annual revenues of less than \$1 million.

The table below depicts the median family income in the El Paso, TX MSA and income levels for low-, moderate-, middle-, and upper-income families.

EI Paso, TX MSA	
Income Level	2020
Median Family Income	\$52,500
Low-income	< \$26,250
Moderate-income	\$26,250 < \$42,000
Middle-income	\$42,000 < \$63,000
Upper-income	≥ \$63,000

Housing Characteristics

- In 2020, the El Paso Metropolitan Assessment Area consisted of 282,616 housing units, with a median age of 39 years.
- The housing stock in the assessment area is comprised of 56.5 percent of owner-occupied units, 35.4 percent of rental units, and 8.1 percent of vacant properties.
- The median housing value for the El Paso Metropolitan Assessment Area is \$113,867, which is lower than the state median housing value of \$136,000.
- Housing in the assessment area is generally less affordable than the state of Texas. The El Paso Metropolitan Assessment Area has an affordability ratio¹ of 36.6 percent compared to the state affordability ratio of 39.1 percent.

Employment and Economic Conditions

- According to the 2020 D&B data, 28,027 businesses and 149 farms operate in the assessment area.
- Major employment sectors in the assessment area include healthcare and social services, retail trade, and accommodation and food services.
- The community contact indicated that many small business owners are truck drivers, as the area is a major transportation hub due to its location, adjacent to the United States and Mexico border, and a major point of entry to the country.
- The community contact indicated that there is opportunity for banks to provide general banking and credit needs for small business owners. The community contact further indicated that many small business owners are “unbanked” and do not seek access to credit through traditional financial institutions. In turn, they seek credit from community development financial institutions (CDFIs), credit unions, or alternative sources.
- As shown in the table below, the unemployment rate was higher in the assessment area in 2019 and 2020 than the state of Texas. In 2020, the unemployment rate increased significantly due in large part to the COVID-19 pandemic.

Annual Average Unemployment Rate El Paso Metropolitan Assessment Area		
AREA	2019	2020
Assessment Area	3.8	8.3
El Paso MSA	3.8	8.3
State of Texas	3.5	7.6

The following table details selected characteristics of the assessment area.

¹ The affordability ratio can be used to measure affordability of housing units in a given area compared to the household income. It is calculated by dividing the median household income by the median housing value. A higher affordability ratio indicates housing is more affordable.

El Paso Metropolitan Assessment Area 2020 Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	10	6.2	7,088	3.6	3,599	50.8	43,488	22.3
Moderate	54	33.5	52,571	27.0	16,417	31.2	33,942	17.4
Middle	54	33.5	66,302	34.0	12,063	18.2	37,272	19.1
Upper	42	26.1	69,003	35.4	6,115	8.9	80,262	41.2
Unknown	1	0.6	0	0.0	0	0.0	0	0.0
Total AA	161	100.0	194,964	100.0	38,194	19.6	194,964	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	12,489	2,952	1.8	23.6	7,990	64.0	1,547	12.4
Moderate	78,104	39,452	24.7	50.5	31,449	40.3	7,203	9.2
Middle	96,399	53,077	33.2	55.1	35,828	37.2	7,494	7.8
Upper	95,624	64,166	40.2	67.1	24,698	25.8	6,760	7.1
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	282,616	159,647	100.0	56.5	99,965	35.4	23,004	8.1
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low	1,951	7.0	1,697	6.5	239	12.6	15	9.6
Moderate	7,565	27.0	6,809	26.2	718	37.9	38	24.2
Middle	8,628	30.8	8,034	30.9	547	28.9	47	29.9
Upper	9,747	34.8	9,333	35.9	359	18.9	55	35.0
Unknown	136	0.5	102	0.4	32	1.7	2	1.3
Total AA	28,027	100.0	25,975	100.0	1,895	100.0	157	100.0
Percentage of Total Businesses:				92.7		6.8		0.6
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
			#	%	#	%	#	%
Low	5	3.4	4	2.8	1	14.3	0	0.0
Moderate	59	39.6	55	38.7	4	57.1	0	0.0
Middle	23	15.4	22	15.5	1	14.3	0	0.0
Upper	61	40.9	61	43.0	0	0.0	0	0.0
Unknown	1	0.7	0	0.0	1	14.3	0	0.0
Total AA	149	100.0	142	100.0	7	100.0	0	0.0
Percentage of Total Farms:				95.3		4.7		0.0
Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey								
Note: Percentages may not total 100.0 percent due to rounding.								

Conclusions with Respect to Performance Tests in El Paso Metropolitan Assessment Area

Lending Test

Lending to Businesses of Different Sizes

The bank's lending to businesses of different revenue sizes reflects a reasonable distribution. According to 2020 D&B data, 92.7 percent of businesses in the assessment area are small businesses². The bank originated 62.3 percent by number and 65.3 percent by dollar volume of business loans in the assessment area to small businesses. Although the bank's performance is below the demographic figure of 92.7 percent, the majority of small business loans were originated to businesses with revenues less than \$1 million. Of the 69 small business loans, the bank originated in the El Paso Metropolitan Assessment Area, 42 or 60.8 percent of the loans totaled less than \$250 thousand. A community contact indicated that most small businesses in the El Paso region seek smaller dollar loans. Furthermore, the bank holds a low level of deposits and loans, by dollar volume, when compared to other financial institutions in the assessment area. Given the high level of competition from local banks and credit unions operating within the assessment area, the bank's level of lending is considered reasonable.

Distribution of 2020 Small Business Lending By Revenue Size of Businesses					
Assessment Area: El Paso Metropolitan					
	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
By Revenue					
\$1 Million or Less	43	62.3	13,811	65.3	92.7
Over \$1 Million	24	34.8	6,630	31.3	6.8
Revenue Unknown	2	2.9	725	3.4	0.6
Total	69	100.0	21,166	100.0	100.0
By Loan Size					
\$100,000 or Less	17	24.6	1,006	4.8	
\$100,001 - \$250,000	25	36.2	4,675	22.1	
\$250,001 - \$1 Million	27	39.1	15,485	73.2	
Total	69	100.0	21,166	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	8	18.6	428	3.1	
\$100,001 - \$250,000	18	41.9	3,317	24.0	
\$250,001 - \$1 Million	17	39.5	10,066	72.9	
Total	43	100.0	13,811	100.0	
<i>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

² CRA considers a small business to be a business with annual revenues equal to or less than \$1 million.

Geographic Distribution of Loans

The bank’s geographic distribution of lending reflects reasonable penetration throughout the assessment area, with loans generally made in close proximity to the bank’s branch and no identified gaps or lapses in lending. The bank’s lending to businesses located in low-income geographies in the assessment area, at 20.3 percent, exceeds the demographic figure of 7.0 percent. The bank originated 17.4 percent of its small business loans to businesses located in moderate-income geographies, which is below the demographic figure of 27.0 percent. While lending to small businesses located in moderate-income geographies is below the demographic figure, combined lending in low- and moderate-income geographies, at 37.7 percent, exceeds the combined demographic, at 34.0 percent).

Distribution of 2020 Small Business Lending By Income Level of Geography					
Assessment Area: El Paso Metropolitan					
Geographic Income Level	Bank Loans				Total Businesses %
	#	#%	\$(000)	\$%	
Low	14	20.3	4,486	21.2	7.0
Moderate	12	17.4	4,616	21.8	27.0
Middle	20	29.0	4,864	23.0	30.8
Upper	23	33.3	7,200	34.0	34.8
Unknown	0	0.0	0	0.0	0.5
Tract-Unk	0	0.0	0	0.0	
Total	69	100.0	21,166	100.0	100.0

Source: 2020 FFIEC Census Data
2020 Dun & Bradstreet Data
2011-2015 U.S. Census Bureau: American Community Survey

Note: Percentages may not total 100.0 percent due to rounding.

COMMUNITY DEVELOPMENT TEST

The bank’s responsiveness to community development needs is adequate considering the bank’s capacity and available opportunities. The bank originated two community development loans, totaling over \$353 thousand, to revitalize and stabilize low- or moderate-income geographies and made 13 donations, totaling over \$10 thousand, to provide community services to low- or moderate-income individuals and families. While the bank had no community development services in the assessment area, the COVID-19 pandemic had a significant impact on volunteer opportunities due to social distancing requirements implemented by state and local governments. Moreover, the COVID-19 pandemic impacted the availability of personnel to operate the bank. Given this context, the bank’s performance is reasonable.

The table below depicts a summary of the bank’s community development activities since the last CRA evaluation.

EL PASO METROPOLITAN ASSESSMENT AREA									
COMMUNITY DEVELOPMENT ACTIVITIES									
Purpose	Community Development Loans		Qualified Investments						Community Development Services
			Investments		Donations		Total Investments		
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#
Affordable Housing	0	0	0	0	0	0	0	0	0
Community Services	0	0	0	0	10	10,713	0	0	0
Economic Development	0	0	0	0	0	0	0	0	0
Revitalization and Stabilization	2	353,727	0	0	0	0	0	0	0
Totals	2	353,727	0	0	10	10,713	0	0	0

MIDLAND METROPOLITAN ASSESSMENT AREA (Full-Scope Review)

Description of Institution's Operations in Midland Metropolitan Assessment Area

The bank's assessment area includes the entirety of Midland County, which is part of the Midland, TX MSA. This MSA also includes Martin County; however, it is excluded from the bank's assessment area.

- The bank operates one branch located in a moderate-income census tract of the Midland Assessment Area. This branch serves as the bank's main office location.
- According to the June 30, 2021 FDIC Market Share Report, 17 federally insured depository institutions operate 43 branches, holding deposits of approximately \$7.6 billion within the assessment area. The bank ranked 10th in deposit market share, with \$253.5 million or 3.3 percent of deposits, in the assessment area. The \$253.5 million of deposits represent 72.8 percent of the bank's total deposits.
- Deposit leaders in the assessment area include Wells Fargo Bank, NA (16.0 percent), Frost bank (15.4 percent), and Community National Bank (14.4 percent).
- An interview was conducted with an individual of a local small business development center serving the assessment area to further understand the credit needs of the community, the responsiveness of area banks in meeting those needs, and the local economic conditions.

Demographic Characteristics

- According to the U.S. Census, the assessment area population in 2015 was 151,290, which represents a 10.5 percent increase since 2010.
- The major municipality in the assessment area is the city of Midland, which also serves as the county seat.
- A community contact indicated that there is a large immigrant population in the Midland Assessment Area due to the oil industry and neighboring border of Mexico.

Income Characteristics

- According to the 2015 ACS, the assessment area consists of 27 census tracts: 1 (3.7 percent) is a low-income census tract, 5 (18.5 percent) are moderate-income census tracts, 12 (44.4 percent) are middle-income census tracts, 8 (29.6 percent) are upper-income census tracts, and 1 (3.7 percent) is an unknown-income census tract.
- There are approximately 36,702 families in the assessment area. By family income, approximately 21.7 percent of these families are classified as low-income, 17.5 percent are moderate-income, 20.2 percent are middle-income, and 40.5 percent are upper-income families.
- Of the families in the assessment area, 6.5 percent live below poverty, which is significantly lower than the family poverty rate for the state of Texas, at 13.5 percent.
- According to D&B data, 8,942 businesses operated in the assessment area in 2020, of which 89.0 percent reported annual revenues of less than \$1 million.

The table below shows the median family income in the Midland, TX MSA and income levels for low-, moderate-, middle-, and upper-income families.

Midland, TX MSA	
Income Level	2020
Median Family Income	\$89,600
Low-Income	< \$44,800
Moderate-Income	\$44,800 < \$71,680
Middle-Income	\$71,680 < \$107,520
Upper-Income	≥ \$107,520

Housing Characteristics

- In 2020, the assessment area contained 56,735 housing units, with a median age of 40 years.
- The assessment area median housing value is \$166,660, which is higher than the state median housing value of \$136,000.
- The housing in the assessment area is slightly more affordable than the state of Texas. The Midland Assessment Area has an affordability ratio³ of 41.1 percent compared to the state of Texas's 39.1 affordability ratio.
- The housing stock in the assessment area is comprised of 62.5 percent of owner-occupied units, 30.7 percent of rental units, and 6.8 percent of vacant properties.

Employment and Economic Conditions

- A community contact indicated that the local economy is heavily driven by the local oil and gas industry, which provides many employment opportunities for the immigrant population living in the region.
- While mining, quarrying, and oil and gas extraction dominate the Midland Metropolitan Assessment Area's employment sector, other industries in the assessment area include retail trade and hospitality and food services.
- The 2019 unemployment rate in the assessment area was lower than the average for the state of Texas; however, in 2020, the unemployment rate in the assessment area increased sharply, exceeding the state average. A community contact indicated that the COVID-19 pandemic had a significant impact on unemployment rates in the assessment area.

The following chart depicts the 2019 and 2020 unemployment rates relevant to the assessment area and the state of Texas.

Annual Average Unemployment Rate		
AREA	2019	2020
Assessment Area	2.1	8.1
Midland MSA	2.1	8.0
State of Texas	3.5	7.6

The following table details selected characteristics of the assessment area.

³ The affordability ratio can be used to measure affordability of housing units in a given area compared to the household income. It is calculated by dividing the median household income by the median housing value. A higher affordability ratio indicates housing is more affordable.

Midland Metropolitan Assessment Area 2020 AA Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	1	3.7	1,134	3.1	126	11.1	7,960	21.7
Moderate	5	18.5	5,395	14.7	913	16.9	6,439	17.5
Middle	12	44.4	16,123	43.9	888	5.5	7,425	20.2
Upper	8	29.6	14,050	38.3	466	3.3	14,878	40.5
Unknown	1	3.7	0	0.0	0	0.0	0	0.0
Total AA	27	100.0	36,702	100.0	2,393	6.5	36,702	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	1,549	1,007	2.8	65.0	329	21.2	213	13.8
Moderate	8,097	4,745	13.4	58.6	2,744	33.9	608	7.5
Middle	25,924	14,815	41.8	57.1	9,379	36.2	1,730	6.7
Upper	21,165	14,882	42.0	70.3	4,969	23.5	1,314	6.2
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	56,735	35,449	100.0	62.5	17,421	30.7	3,865	6.8
	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	161	1.8	144	1.8	17	1.9	0	0.0
Moderate	2,048	22.9	1,743	21.9	279	31.4	26	26.5
Middle	3,348	37.4	2,946	37.0	379	42.6	23	23.5
Upper	3,337	37.3	3,089	38.8	202	22.7	46	46.9
Unknown	48	0.5	33	0.4	12	1.3	3	3.1
Total AA	8,942	100.0	7,955	100.0	889	100.0	98	100.0
Percentage of Total Businesses:				89.0		9.9		1.1
	Total Farms by Tract		Farms by Tract & Revenue Size					
			Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low	1	0.6	1	0.6	0	0.0	0	0.0
Moderate	29	16.2	28	15.7	1	100.0	0	0.0
Middle	44	24.6	44	24.7	0	0.0	0	0.0
Upper	105	58.7	105	59.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	179	100.0	178	100.0	1	100.0	0	0.0
Percentage of Total Farms:				99.4		0.6		0.0
Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey								
Note: Percentages may not total 100.0 percent due to rounding.								

Conclusions with Respect to Performance Tests in Midland Metropolitan Assessment Area

LENDING TEST

Lending to Businesses of Different Sizes

The bank's lending to businesses of different revenue sizes reflects a reasonable distribution. According to 2020 D&B data, 89.0 percent of businesses in the assessment area are small businesses, with annual revenues of less than \$1 million. The bank originated 66.7 percent by number and 50.0 percent by dollar volume of business loans to small businesses. Of the small business loans sampled, only three loans were originated in the Midland Metropolitan Assessment Area. This level of lending is very low considering the high percentage of the bank's total deposits that come from the assessment area and may be insufficient to draw meaningful conclusions. However, the high level of competition from local banks and credit unions located within the assessment area contributes to the low lending volume to small businesses. Furthermore, a community contact indicated that many small business owners do not seek loans through traditional financial institutions due to credit requirements including documentation, collateral, and established credit. Given the low level of lending, this conclusion does not carry much weight when determining the bank's overall CRA performance.

Distribution of 2020 Small Business Lending By Revenue Size of Businesses					
Assessment Area: Midland Metropolitan					
	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
By Revenue					
\$1 Million or Less	2	66.7	900	50.0	89.0
Over \$1 Million	0	0.0	0	0.0	9.9
Revenue Unknown	1	33.3	900	50.0	1.1
Total	3	100.0	1,800	100.0	100.0
By Loan Size					
\$100,000 or Less	0	0.0	0	0.0	
\$100,001 - \$250,000	0	0.0	0	0.0	
\$250,001 - \$1 Million	3	100.0	1,800	100.0	
Total	3	100.0	1,800	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	0	0.0	0	0.0	
\$100,001 - \$250,000	0	0.0	0	0.0	
\$250,001 - \$1 Million	2	100.0	900	100.0	
Total	2	100.0	900	100.0	
<i>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

Geographic Distribution of Loans

The bank's geographic distribution of lending reflects reasonable penetration throughout the assessment area, with loans generally extended in close proximity to the bank's branch and no gaps or lapses in lending identified. While the bank did not originate small business loans in low-income geographies, only 1.8 percent of small businesses in the assessment area are located in low-income census tracts. In addition, the bank originated two small business loans (66.7 percent by both number and by dollar volume) to small businesses located in moderate-income geographies, which exceeds the demographic figure of 22.9 percent. Although the bank's performance significantly exceeds the demographic, it is noteworthy that only three loans from the sample were originated in this assessment area. Therefore, conclusions reached from this analysis carry little weight in the assessment of the bank's overall CRA performance.

Distribution of 2020 Small Business Lending By Income Level of Geography					
Assessment Area: Midland Metropolitan					
Geographic Income Level	Bank Loans				Total Businesses %
	#	#%	\$(000)	\$%	
Low	0	0.0	0	0.0	1.8
Moderate	2	66.7	1,200	66.7	22.9
Middle	0	0.0	0	0.0	37.4
Upper	1	33.3	600	33.3	37.3
Unknown	0	0.0	0	0.0	0.5
Tract-Unk	0	0.0	0	0.0	
Total	3	100.0	1,800	100.0	100.0

Source: 2020 FFIEC Census Data
2020 Dun & Bradstreet Data
2011-2015 U.S. Census Bureau: American Community Survey

Note: Percentages may not total 100.0 percent due to rounding.

COMMUNITY DEVELOPMENT TEST

The bank's responsiveness to community development needs in the Midland Metropolitan Assessment Area is poor. The bank did not conduct community development activities (loans, investments, or services) in the Midland Metropolitan Assessment Area during the review period. It is noteworthy that the COVID-19 pandemic impacted the bank's ability to engage in traditional community development services and opportunities. Despite these challenges, similarly situated institutions originated a significantly higher level of community development activity during the same time period. Numerous community development opportunities were identified in the assessment area. For example, the median family income is significantly higher than that of the state due to higher wages paid by local oil and gas companies. This higher level of income and the transient nature of the oil and gas industry employees drive the cost of housing up and have a significant impact on low-income residents of the area. As a result, limited affordable housing stock presents an increasing community development need. Furthermore, community contacts indicated that there is substantial need for economic development opportunities in the assessment area to create and retain jobs for low- and moderate-income individuals outside the oil and gas industry. The bank's lack of community development activity reflects poor responsiveness given these needs.

**KENT-DICKENS-STONEWALL NONMETROPOLITAN ASSESSMENT AREA
(Limited scope Review)**

Description of Institution's Operations in Kent-Dickens-Stonewall Assessment Area

The Kent-Dickens-Stonewall Assessment Area consists of the entirety of Kent, Dickens, and Stonewall counties. The bank operates one branch within the assessment area. The FFIEC categorizes Dickens and Stonewall counties as distressed and underserved. As of June 30, 2021, the bank had 21.9 million in deposits in the assessment area, representing 17.1 percent of the market share of total deposits and 6.3 percent of the bank's total deposits. Given the bank's limited lending activity, a limited-scope review of this assessment area was conducted. Moreover, the bank's performance in meeting the credit and community development needs in this assessment area carried the least weight when rating the institution's overall CRA performance.

Conclusions with Respect to Performance Tests

Through the use of available facts and data, including performance and demographic information, the assessment area's performance was evaluated and compared with the bank's performance in the state of Texas.

The bank's lending performance in the assessment area is consistent with the bank's overall lending performance. Under the Lending Test, the dispersion of loans, as well as the distribution of lending by revenue size of businesses, were consistent with the assessment areas receiving full-scope reviews. The bank originated one loan or 100.0 percent of small business loans to a business with annual revenues less than \$1 million. Additionally, the bank's community development performance in the assessment area is consistent with the bank's overall community development performance. Community development activities included three donations, totaling \$5,750, and 39 hours of community development services during the review period. Please refer to the tables in Appendix A for information on the demographic characteristics of the assessment areas as well as the bank's small business lending.

APPENDICES

Appendix A – Kent-Dickens-Stonewall Nonmetropolitan Assessment Area Loan Tables

Kent Nonmetropolitan Assessment Area 2020 AA Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	0	0.0	255	21.9
Moderate	0	0.0	0	0.0	0	0.0	164	14.1
Middle	3	100.0	1,166	100.0	151	13.0	263	22.6
Upper	0	0.0	0	0.0	0	0.0	484	41.5
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	3	100.0	1,166	100.0	151	13.0	1,166	100.0
	Housing Units by Tract	Housing Type by Tract						
		Owner-occupied			Rental		Vacant	
		#	% by tract	% by unit	#	% by unit	#	% by unit
Low	0	0	0.0	0.0	0	0.0	0	0.0
Moderate	0	0	0.0	0.0	0	0.0	0	0.0
Middle	2,879	1,385	100.0	48.1	445	15.5	1,049	36.4
Upper	0	0	0.0	0.0	0	0.0	0	0.0
Unknown	0	0	0.0	0.0	0	0.0	0	0.0
Total AA	2,879	1,385	100.0	48.1	445	15.5	1,049	36.4
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	0	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	181	100.0	153	100.0	18	100.0	10	100.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	181	100.0	153	100.0	18	100.0	10	100.0
Percentage of Total Businesses:				84.5		9.9		5.5
	Total Farms by Tract	Farms by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low	-	0.0	0	0.0	0	0.0	0	0.0
Moderate	0	0.0	0	0.0	0	0.0	0	0.0
Middle	51	100.0	51	100.0	0	0.0	0	0.0
Upper	0	0.0	0	0.0	0	0.0	0	0.0
Unknown	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	51	100.0	51	100.0	0	0.0	0	0.0
Percentage of Total Farms:				100.0		0.0		0.0
<p>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</p> <p>Note: Percentages may not total 100.0 percent due to rounding.</p>								

Distribution of 2020 Small Business Lending By Revenue Size of Businesses					
Assessment Area: Kent Nonmetropolitan					
	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
By Revenue					
\$1 Million or Less	1	100.0	10	100.0	84.5
Over \$1 Million	0	0.0	0	0.0	9.9
Revenue Unknown	0	0.0	0	0.0	5.5
Total	1	100.0	10	100.0	100.0
By Loan Size					
\$100,000 or Less	1	100.0	10	100.0	
\$100,001 - \$250,000	0	0.0	0	0.0	
\$250,001 - \$1 Million	0	0.0	0	0.0	
Total	1	100.0	10	100.0	
By Loan Size and Revenues \$1 Million or Less					
\$100,000 or Less	1	100.0	10	100.0	
\$100,001 - \$250,000	0	0.0	0	0.0	
\$250,001 - \$1 Million	0	0.0	0	0.0	
Total	1	100.0	10	100.0	
<i>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

Distribution of 2020 Small Business Lending By Income Level of Geography					
Assessment Area: Kent Nonmetropolitan Assessment Area					
Geographic Income Level	Bank Loans				Total Businesses %
	#	#%	\$(000)	%	
Low	0	0.0	0	0.0	0.0
Moderate	0	0.0	0	0.0	0.0
Middle	1	100.0	10	100.0	100.0
Upper	0	0.0	0	0.0	0.0
Unknown	0	0.0	0	0.0	0.0
Total	1	100.0	10	100.0	100.0
<i>Source: 2020 FFIEC Census Data 2020 Dun & Bradstreet Data 2011-2015 U.S. Census Bureau: American Community Survey</i>					
<i>Note: Percentages may not total 100.0 percent due to rounding.</i>					

Appendix B - 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.

1. Affordable housing (including multi-family rental housing) for low- or moderate-income individuals.
2. Community services targeted to low- or moderate-income individuals.
3. 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.
4. Activities that revitalize or stabilize –
 - a. Low- or moderate-income geographies.
 - b. Designated disaster areas.
 - c. 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-
 - i. Rates of poverty, unemployment, and population loss.
 - ii. 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.