



LARGE BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 19, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Lone Star National Bank
Charter Number: 17611

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Pharr, TX 78577

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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, and should not 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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Overall CRA Rating

Institution’s CRA Rating: This institution is rated Satisfactory.

The following table indicates the performance level of Lone Star National Bank with respect to the Lending, Investment, and Service Tests:

Performance Levels	Lone Star National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory			
Needs to Improve		X	
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- Lending activity reflects good responsiveness to credit needs in the bank’s assessment areas, given the bank’s business strategy and performance context.
- The geographic distribution of small loans to businesses is good and the geographic distribution of residential mortgage loans is good.
- The distribution of loans among borrowers of different income levels and small businesses is good.
- The level of community development loans had a neutral impact on Lending Test performance.
- The amount of community development investments is very low and is considered poor.
- Retail service delivery systems are accessible to geographies, businesses, and individuals of different income levels throughout the assessment areas.
- The bank provides an adequate level of community development services.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

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 (MA)/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development (CD): 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.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

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 the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include additional data on loan pricing, the lien status of the collateral, any requests for preapproval and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

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.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

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 MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

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 multi-state 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 multi-state metropolitan area, the institution will receive a rating for the multi-state 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.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (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.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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

Description of Institution

Lone Star National Bank (LSNB) is an intrastate bank headquartered in Pharr, Texas. LSNB operates 26 full service branches, and 36 automated teller machines (ATMs) in Hidalgo, Cameron, and Starr counties. The major cities in these counties are McAllen, Edinburg, and Mission in Hidalgo County; Brownsville and Harlingen in Cameron County; and Roma and Rio Grande City in Starr County.

LSNB is a wholly owned subsidiary of Lone Star National Bancshares – Texas, Inc., a one-bank holding company based in Pharr, Texas. As of June 30, 2009, the holding company had total assets of \$1.8 billion. No activities of the holding company subsidiaries, – Lone Star Insurance Services, Inc. and LSNB Investment Services, Inc., are considered in the evaluation of the bank's CRA performance. LSNB's overall business strategy is to become the largest independent bank in south Texas.

As of June 30, 2009, the bank had \$1.8 billion in total assets. Net loans of \$1.1 billion represented 61 percent of total assets. The bank's loan portfolio includes commercially related loans for development, construction, permanent financing, or other commercial and industrial purposes (72 percent), residential loans for construction or permanent financing (19 percent), agriculturally related loans for production or secured by farmland (5 percent), and loans under credit card plans or for other consumer purposes (4 percent). Tier 1 Capital totaled \$172 million and resulted in a Tier 1 Leverage Capital ratio of 9.84 percent of assets.

LSNB offers a full range of financial products and services with particular emphasis on loans for commercial purposes, residential development, and consumer purposes.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its assessment areas. The rating at the bank's last CRA examination dated November 13, 2006, was "Satisfactory."

Scope of the Evaluation

Evaluation Period/Products Evaluated

This Performance Evaluation assesses the bank's performance under the Lending, Investment and Service Tests. To evaluate the bank's lending performance, we reviewed residential mortgage loans subject to filing under the HMDA, small loans to businesses subject to filing under the CRA, and community development (CD) loans. The Investment Test included a review of investments, grants, and donations made in the bank's assessment areas that meet the definition of CD investments. The Service Test included a review of retail and CD services provided in the bank's assessment areas.

The evaluation period for the Lending Test, except for CD loans, covered January 1, 2007 through June 30, 2009. For CD loans, the Investment Test, and the Service Test, the evaluation period covered November 13, 2006, the date of the last CRA evaluation, through October 19, 2009. We based our conclusions related to CD loans and qualified investments on the number and dollar amounts made during the evaluation period. We also considered the level of innovation, complexity, responsiveness to community credit needs, and the degree to which private investors do not provide these instruments.

Data Integrity

In March 2009, OCC personnel verified the accuracy of data made available to the public in accordance with HMDA and CRA loan data reporting requirements. Public data includes home mortgage lending and small loans to businesses and farms. HMDA data submitted for 2008 was found to contain significant errors. Management made appropriate corrections and submitted corrected 2008 HMDA data on March 6, 2009. This evaluation was based on accurate HMDA and CRA loan data for 2007, 2008, and year-to-date, June 2009. During the CRA examination, OCC personnel reviewed non-public data that LSNB management submitted for CD loans, CD investments, and CD services to ensure that they met the regulatory definition for CD.

Selection of Areas for Full-Scope Review

During this evaluation, we performed full-scope reviews for one of the bank's three assessment areas (AAs). We selected the AA where the bank has a substantial share of its deposit and loan business. We conducted full-scope reviews for the Hidalgo County AA. This AA represents 65 percent of the locations, 76 percent of the deposits, and 77 percent of the number of loans, and 82 percent of dollar loan volume.

We conducted limited scope reviews in the remaining AAs: Cameron County AA and Starr County AA.

Please refer to Appendix A for more information.

Ratings

LSNB's overall rating is based primarily on the Hidalgo County AA that received a full-scope review because the largest percentage of the bank's business is located in this AA. Overall performance in small business lending received the most weight in determining the overall Lending Test rating followed by home improvement lending and home purchase lending. Small loans to businesses represent a substantial majority of loans originated with 84 percent of total loan originations. In the full scope area of Hidalgo County, small business lending represents 81 percent of all small business lending. Small farm loans represent less than 3 percent of total originations and are not a primary business line.

Analyses of lending for home refinance and small farm purposes were not meaningful because of the low volumes of these types of lending; therefore, they received less weight in determining the overall Lending Test rating.

Other

Community credit needs in the AAs were determined by reviewing recent housing and demographic information and community contacts conducted by the OCC in connection with other CRA examinations of banks operating in the same AAs.

For this examination, we reviewed recent community contacts to determine credit needs and opportunities for financial institutions to meet those needs. The contacts indicated a somewhat high level of community development opportunities in the full-scope AA in the areas of affordable housing, small business financing, and community services. The comments received were positive and indicated that the current economic problems in housing and commercial lending have affected the willingness and ability of some financial institutions in general to meet credit needs in the full-scope AA.

Fair Lending or Other Illegal Credit Practices Review

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

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Lending Test is rated "**High Satisfactory**".

- ▶ Overall lending performance in the Hidalgo County AA is good.

These conclusions are based on the bank's performance context and the full-scope review of the specific AA noted above. Small business lending and residential mortgage lending were the primary products reviewed to evaluate CRA performance, with somewhat more consideration given to small business lending. Review of small business lending had the most impact on the final rating. Other factors having a positive impact on the rating included the origination of a significant majority of loans in the AAs and the flexible loan program dealing with foreclosures.

Lending Activity

Refer to Table 1 Lending Volume Appendix C for the facts and data used to evaluate the bank's lending activity.

LSNB's responsiveness to credit needs in its AAs during the evaluation period is good. Identified credit needs include loans to small businesses and home mortgage products for affordable housing. In the AAs, loans to small businesses totaled 4,258 or 81 percent of the number of originated loans. Home mortgage loans comprised 17 percent. CD lending was adequate and had a neutral effect on the Lending Test conclusions.

Overall lending volume in the bank's AAs is good. Market share data and rankings for deposits are from the FDIC's Summary of Deposits, Market Share Report as of June 30, 2009. Market share and rankings for loan information are from 2007 Peer Mortgage data and 2008 Peer Small Business data.

Overall, the bank has a significant market share of small business loans in the Hidalgo County AA. While LSNB is third in number of loan originations in this AA, the bank ranks first in number of loan dollars with a 28.95 percent market share. LSNB leads the second ranked lender by over 70 percent.

Hidalgo County AA: The bank has 12.10 percent of the deposit market share in the AA and ranks third in this market. The bank is ranked third for small loans to businesses with an 8.66 percent market share. The bank is ranked twenty-first for home purchase loans and had a market share of 1.33 percent. LSNB's average loan size for home purchase loans is \$155 thousand, compared to the average of \$62 thousand for all lenders.

This AA includes a large number of financial institutions resulting in an aggressive level of lending competition for small business loans and residential real estate loans.

Distribution of Loans by Income Level of the Geography

Home Mortgage Loans

Refer to Tables 2, 3, 4 and 5 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

LSNB's overall distribution of home mortgage loans by income level of geography is good in the Hidalgo County AA.

Geographic distribution analysis of home mortgage refinance loans is not meaningful. This product represents 1.44 percent of total loan originations. LSNB originated only 76 home refinance loans spread among three AAs. The table titled, Geographic Distribution of Home Mortgage Refinance Loans is provided for informational purposes only.

The geographic distribution of home purchase loans is adequate. While the distribution of loans in moderate-income geographies is lower than the percentage of owner-occupied housing units, the bank's market share in moderate-income geographies is near to the overall market share.

The geographic distribution of home improvement loans is good. While the distribution of loans in moderate-income geographies is somewhat lower than the percentage of owner-occupied housing units, the bank's market share in moderate-income geographies exceeds the overall market share.

The geographic distribution of multifamily loans is excellent. The distribution of loans in moderate-income geographies exceeds the percentage of multifamily units in those geographies. The market share in moderate-income geographies is equal to the overall market share.

Small Loans to Businesses

Refer to Table 6 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

The geographic distribution of small loans to businesses in the Hidalgo County AA is adequate. The distribution of loans in moderate-income geographies is somewhat lower than the percentage of small businesses located in those areas. The bank's market share in moderate-income geographies is somewhat lower than the overall market share.

Small Loans to Farms

Refer to Table 7 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to farms.

A geographic distribution analysis of small loans to farms is not meaningful. This product represents 2.50 percent of total loan originations. LSNB originated only 132 loans spread over three AAs. The table is provided for informational purposes only.

Lending Gap Analysis

Maps and reports detailing LSNB's lending activity over the evaluation period for home mortgages and small loans to businesses were reviewed to identify gaps in the geographic distribution of those loans. No unexplained conspicuous gaps were identified.

Inside/Outside Ratio

The bank's distribution of loans inside/outside of their AAs is excellent. A significant majority of the HMDA, small business, and small farm loans originated by LSNB during the evaluation period were within its AAs. Ninety-eight percent of the total number of loans and total dollar volume of loans originated within the bank's AAs. This analysis was performed at the bank-wide level rather than at the AA level. The information includes loans that the bank originated or purchased and does not include loans by affiliates that are being considered under other performance criteria. The excellent distribution of loans originating within LSNB's AAs factored positively in the overall lending performance analysis.

Distribution of Loans by Income Level of the Borrower

Home Mortgage Loans

Refer to Tables 8, 9, and 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

LSNB's distribution of home mortgage loans by income level of borrowers is good in the Hidalgo County AA. We factored into our analysis of home mortgage loans the difficulty that low- and moderate-income individuals have in purchasing homes in the AAs.

The distribution of home purchase loans by borrower income level is good despite the high level of households (32 percent) below the poverty level. When compared with a HUD Adjusted Median Family Income of \$27,700 for 2007, and \$31,600 for 2008, and a median home price of \$115 thousand and an average sale price of \$112 thousand to \$140 thousand, the unsubsidized purchase of an average single-family residence may be beyond the financial means of many individuals classified as low- and moderate-income. While the percentage of loans to low-income borrowers is significantly lower than the percentage of low-income families in the AA, the bank's market share for low-income borrowers exceeds its overall market share by over seven times. The percentage of loans to moderate-income borrowers is lower than the percentage of moderate-income families in the AA, but the bank's market share for moderate-income borrowers substantially exceeds its overall market share by over two times.

The distribution of home improvement loans by borrower income level is good. While the percentage of loans to low-income borrowers is lower than the percentage of low-income families in the AA, the bank's market share for low-income borrowers exceeds its overall

market share by about 1.5 times. The percentage of loans to moderate-income borrowers is somewhat lower than the percentage of moderate-income families in the AA, but the bank's market share for moderate-income borrowers exceeds its overall market share by about 1.5 times.

Analysis of home mortgage refinance loans by borrower income levels is not meaningful. This product represents 1.44 percent of total loan originations. LSNB originated only 76 home refinance loans spread among three AAs. The table titled Borrower Distribution of Home Mortgage Refinance Loans is provided for informational purposes only.

Small Loans to Businesses

Refer to Table 11 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

LSNB's distribution of small loans to businesses is good. The percentage of small loans to businesses with annual revenues of \$1 million or less is near to the percentage of businesses with annual revenues of \$1 million or less in the AA, and the bank's market share to businesses with annual revenues of \$1 million or less substantially exceeds its overall market share by almost two times.

Small Loans to Farms

Refer to Table 12 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to farms.

A distribution analysis of small loans to farms by revenue is not meaningful. This product represents 2.50 percent of total loan originations. LSNB originated only 132 loans spread over three AAs. The table is provided for informational purposes only.

Community Development Lending

Refer to Table 1 Lending Volume in Appendix C for the facts and data used to evaluate the bank's level of CD lending. This table includes all CD loans, including multifamily loans that also qualify as CD loans. In addition, Table 5 includes geographic lending data on all multifamily loans, including those that also qualify as CD loans. Table 5 does not separately list CD loans, however.

LSNB has an adequate level of CD loans in its AAs. This had a neutral impact on the overall Lending Test conclusions. LSNB originated 30 CD loans totaling \$18.3 million during the evaluation period. Twenty loans totaling \$12 million originated in the Hidalgo County AA, four loans totaling \$3.7 million originated in the Cameron County AA, and six loans totaling \$2.6 million originated in the Starr County AA. These loans financed activities for the CD purposes of affordable housing, community services, and economic development for small businesses. None of the CD loans are considered complex or innovative.

Examples of CD Lending:

- LSNB originated 25 loans totaling \$13.4 million to construct individual or multi-family affordable housing units and to provide permanent financing for multi-family projects that are targeted primarily toward low- and moderate-income individuals or families. Eighteen loans totaling \$11.5 million originated in the Hidalgo County AA, two loans for \$340 thousand originated in the Cameron County AA, and five loans totaling \$1.6 million originated in the Starr County AA.
- LSNB originated two loans totaling \$3.4 million to finance entities that provide community services to low- or moderate-income persons or areas. One loan for \$406 thousand originated in the Hidalgo County AA, and one loan for \$3 million originated in the Cameron County AA.
- LSNB originated three loans totaling \$1.5 million for economic development for small businesses. One loan for \$159 thousand was originated in the Hidalgo County AA, one loan for \$329 thousand was made in the Cameron County AA, and one loan for \$995 thousand was originated in the Starr County AA.

Product Innovation and Flexibility

In response to the current economic environment regarding mortgage loans, LSNB implemented a flexible loan program for its customers. The Foreclosure Prevention Program is targeted to existing customers who are delinquent or may be facing foreclosure. The program includes one or more of the following: financial counseling, flexible loan terms tailored to individual situations, payment of property taxes to avoid foreclosure by taxing authorities, and referral to HUD-approved nonprofit counseling agencies.

The Foreclosure Prevention Program has been highly successful after its inception in 2007. The bank has made 42 loans totaling \$4.3 million. Even though this program did not target affordable housing, the median loan amount was \$89 thousand, well below the average sale price of a home in the Hidalgo County AA, where most of these loans originated. All of these loans were reported on the bank's HMDA loan registers for 2007, 2008, or 2009.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's performance under the Lending Test in the Cameron County AA and in the Starr County AA is not inconsistent with the bank's overall "High Satisfactory" performance under the lending test. Refer to Tables 1 through 13 in Appendix C for the facts and data that support these conclusions.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Investment Test is rated "**Needs to Improve.**" Based on the full-scope review, the bank's performance in the Hidalgo County AA is poor. Refer to Table

14 in appendix C for the facts and data used to evaluate the bank's level of qualified investments.

The number and dollar volume of LSNB's qualified investments is poor in view of existing opportunities to make qualifying investments in its AAs.

The bank's current period qualified investments of \$80,656 consist solely of charitable donations. A substantial majority of the bank's donations provide food and shelter to low-and moderate income individuals, wellness and human development services, and other community services for low- and moderate-income at-risk children, and affordable housing. None of these had a high impact or are considered innovative or complex.

LSNB also has a prior period investment of \$100,000 in the Rio Grande Valley Multi-Bank Corporation, which has achieved the designation of community development financial institution (CDFI) and certified development entity (CDE) from the U. S. Treasury Department. Its mission is to serve the people of the Lower Rio Grande Valley of Texas, which includes Cameron, Hidalgo, Starr, and Willacy counties. Most of its activities have been to provide affordable housing in the area.

Hidalgo County AA

The bank provided qualified investments totaling \$80,656 during the evaluation period to organizations that provide community services to low- and moderate-income individuals in Hidalgo County. Examples of responsive qualifying donations include:

- **Boys and Girls Club of Edinburg/Mission/Pharr** - \$15,575. This organization's community services are targeted toward low- and moderate-income children. It operates chartered school sites, school outreach programs, and safe neighborhood units where children can spend time after school and during the summer. The clubs are places where young people from primarily low- and moderate-income households and areas can come to learn, do homework, develop social skills, express themselves creatively, and participate in sports.
- **Food Bank of the Rio Grande Valley** - \$17,800. This community service organization collects food from retailers, wholesalers, manufacturers, and the local community and distributes it to the local low- and moderate-income persons. The Food Bank distributes the food to local food pantries in churches, homeless shelters, and soup kitchens.
- **Hope Family Medical Center** - \$16,563. This is an area medical center that primarily serves Hidalgo County area people who are low- and moderate-income.

Conclusions for Area Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's performance under the Investment Test in the Cameron County AA and in the Starr County AA is not inconsistent with the bank's overall "Needs to Improve" performance under the Investment Test.

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Service Test is rated "**High Satisfactory**". Based on full-scope reviews, the bank's performance in the Hidalgo County AA is good.

Retail Banking Services

Refer to Table 15 in Appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

The delivery system in the Hidalgo County AA is good. While the percentage of branches is lower than the percentage of the population that resides in moderate-income census tracts, another 4, or 24 percent, of the branches are in tracts that are adjacent to or in close proximity to moderate-income tracts. This improves overall accessibility by the residents of those moderate-income tracts. Many of the LSNB branches are located near US Highway 83, the primary East/West thoroughfare through the bank's AAs, making them convenient to most area residents and businesses. There are no low-income geographies in the Hidalgo County AA.

Bank hours are consistent for all locations with two locations offering extended hours. Bank hours are among the more convenient in the Hidalgo County AA based on longer hours of operation on Saturdays for lobbies and motor bank facilities. On Saturdays, LSNB lobbies are open when several competing institutions are not open, and motor banks are open an hour longer than most area banks.

Alternative Delivery Systems

The distribution of ATMs in the Hidalgo County AA is generally consistent with the distribution of the bank's branches and they provide reasonable access to bank products and services. Alternative delivery systems also include 24-Hour Phone Banking, Internet banking, LSNB Mobile Banking (cell phones or other mobile devices), and bank by mail. All of these services are available in English and Spanish. Through the bank's website, customers can access information regarding their checking, savings, and loan balances, transfer funds, print statements and account histories, view their imaged checks, pay bills, and communicate with the bank via e-mail. No data was available to determine the effect of these services on low- and moderate-income individuals or areas; therefore, these were not key considerations in determining the level of benefit to low- or moderate-income individuals or areas.

Opening and Closing of Branches

The record of opening branches had an overall positive impact on improving the accessibility of the bank's services in the moderate-income geographies in the Hidalgo County AA. While none of the new branches are in a moderate-income geography, two of the five new branches are in tracts that are adjacent to moderate-income tracts and accessible by low- and moderate-income persons in the area.

Other Retail Banking Services

The bank offers a variety of loan and deposit products at its many locations. No data was available to determine the effect of these products on low- and moderate-income individuals or areas; therefore, the level of benefit to low- or moderate-income individuals or areas could not be determined. Examples of the products and services that could benefit low- or moderate-income individuals due to their low-cost nature include:

Regular Savings - A minimum initial deposit of \$25 is required and a quarterly service charge of \$3.99 is waived if a \$25 daily balance is maintained. Four free withdrawals are allowed each quarter. Additional withdrawals are charged a fee of \$1.99.

Free Checking - This account requires a low initial deposit of \$50 to open and is not assessed a monthly service fee. While it earns no interest, several free services are included. Examples include travelers checks, money orders, cashiers checks, notary services, and unlimited check writing. No minimum balance is required, checks are imaged, and no per item fees apply.

Directo a Mexico – This is a money transmittal service which is designed primarily for the low- to moderate-income customer or small business customer who wishes to send funds or make payments, or send payroll to individuals in Mexico. This is a low-cost option for sending small amounts more efficiently and reliably.

Community Development Services

LSNB provided an adequate level of CD services during the evaluation period, primarily for organizations that provide affordable housing and community services.

The most significant qualifying services consist of the following:

- **Food Bank of the Rio Grande Valley** - Numerous employees and officers are very active in fundraising efforts for this community service organization. Some serve in leadership capacities and have been instrumental in helping raise substantial amounts of food and money in the various fundraising activities.
- **Boys and Girls Club of Mission** - This organization's community services are targeted toward low- and moderate-income children. An officer provides financial services through his membership on the organization's Board of Directors.
- **McAllen Housing Finance Corporation** - This organization provides affordable housing financing for area residents. An officer provides key leadership in financial and other matters as the President of this organization.
- **Coto de Casa, Inc.** - This is a Community Housing Development Organization that serves the affordable housing needs of the Hidalgo County AA. An officer provides financial services through his membership on the organization's Board of Directors.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's performance under the Service Test in the Cameron County is not inconsistent with the bank's overall "High Satisfactory" performance under the Service Test. In the Starr County AA, a nonmetropolitan area, the bank's performance is stronger than the bank's overall performance because of an excellent branch distribution. Refer to Table 15 in Appendix C for the facts and data that support these conclusions.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD Loans): (01/01/07 to 06/30/09) Investment and Service Tests and CD Loans: (11/13/06 to 10/19/09)	
Financial Institution	Products Reviewed	
Lone Star National Bank, Pharr, Texas	HMDA, CRA, Community Development Loans, Community Development Investments, and Community Development Services	
Affiliate(s)	Affiliate Relationship	Products Reviewed
We did not review any affiliate activities.	N/A	N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Hidalgo County AA Cameron County AA Starr County AA	Full-Scope Limited-Scope Limited-Scope	McAllen-Edinburg-Mission MSA #32580 Brownsville-Harlingen MSA #15180 All of the Starr County, Texas Non-MSA

Appendix B: Market Profiles for Full-Scope Areas

Hidalgo County Assessment Area

Demographic Information for Full-Scope Area: Hidalgo County Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	80	0.00	28.75	47.50	23.75	0.00
Population by Geography	569,463	0.00	29.73	48.29	21.98	0.00
Owner-Occupied Housing by Geography	114,570	0.00	27.56	48.45	23.99	0.00
Businesses by Geography	37,022	0.00	19.52	42.48	38.00	0.00
Farms by Geography	641	0.00	13.57	55.54	30.89	0.00
Family Distribution by Income Level	133,186	23.48	16.86	17.68	41.98	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	53,733	0.00	37.97	48.96	13.07	0.00
Median Family Income	= \$ 25,988					
HUD Adjusted Median Family Income for 2008	= \$ 31,600					
Households Below the Poverty Level	= 32%					
				Median Housing Value	= \$ 49,916	
				Unemployment Rate	= 4.33%	

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 U.S. Census, and 2008 HUD updated MFI.

The Hidalgo County AA is also known as the McAllen-Edinburg-Mission MSA. The defined AA meets the requirements of the CRA and does not arbitrarily exclude any low- or moderate-income tracts. Major cities are McAllen, Edinburg, Mission, Pharr, and Weslaco. These cities are located essentially adjacent to each other. There are several other smaller cities mainly along State Highway 83. The median housing price was \$115 thousand in 2008 with an average sale price of between \$112 and \$140 thousand according to the Real Estate Center at Texas A&M University.

LSNB's main competitors in the AA are other large area community banks - Inter National Bank of McAllen, First National Bank of Edinburg, and several smaller community banks. Branches of multinational and regional banking companies such as BBVA-Compass, Wells Fargo, International Bank of Commerce, Frost Bank, and JP Morgan Chase Bank also provide competition. At June 30, 2009, MSA deposits account for 76 percent of total deposits. Of the total HMDA and CRA loans reported during the evaluation period, 77 percent of the number and 82 percent of the dollars were made in this AA. The bank operates 17 full service branches and 25 ATMs in the Hidalgo County AA. LSNB offers a full-range of banking products and services in this AA with particular emphasis on loans for affordable housing, small business loans, and loans for consumer purposes.

Prior to 2008, the metropolitan area of McAllen was one of the fastest growing in the state and in the nation. That growth made McAllen the second largest residential center along the

border after El Paso. The growing population base was the primary force feeding growth in the metro area's housing, education, health, finance, and personal services industries. Local manufacturing added jobs and hiring accelerated in tourism areas.

Economic conditions were fairly stable at year-end 2008 in contrast to nationwide economic problems in commercial real estate and residential housing. Professional and business service, state and federal government, and education and health service sectors account for the majority of employment in the AA. The major sectors and employers were the school districts in McAllen and Edinburg, Healthcare - Edinburg Regional Medical Center, McAllen Medical Center, Doctors Hospital at Renaissance, and government – state and federal. Major corporate employers are Walmart and the various banking companies.

The MSA reported an annual unemployment rate of 7.3 percent as of December 31, 2008, which is higher than the state average of 4.9 percent. For August 2009, the unemployment rate has markedly increased to 11.4 percent, a reflection of current economic conditions nationwide and a reversal of the previous record of consistent employment growth in recent years in the Hidalgo County AA.

Market data on HMDA lending indicates there is a lower than average demand for purchase money mortgage loans in the bank's trade area. The high level of families below the poverty level coupled with the high unemployment rate, median sales price, and average sales price of a home, means many cannot qualify for home mortgage loans. While the prior high growth levels helped mitigate these factors somewhat, the general economic slowdown of late 2008 and 2009 has impacted the demand for loans resulting in somewhat lower demand in the commercial real estate and residential real estate markets.

Hidalgo County has a good level of CD opportunities. Community contacts identified needs that include small business financing, affordable housing, and small consumer loans. Government and non-profit organizations in the county such as the McAllen Housing Authority, Mercedes Housing Authority, McAllen Affordable Homes, Inc., and Coto de Casa, Inc. help to provide home ownership counseling, construction, and financing of affordable homes. The MSA includes several areas that are identified as Federally-designated Empowerment Zones, primarily for affordable housing.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/AA; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12. Tables without data are not included in this PE.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/AA. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. See Interagency Q&As - 12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses

(regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's AA.

- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's AA.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/AA. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.
- Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current

period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's AA. See Interagency Q&As - 12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments.

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

Table 1. Lending Volume

LENDING VOLUME		Geography: TEXAS				Evaluation Period: NOVEMBER 13, 2006 TO OCTOBER 19, 2009						
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
Full Review:												
Hidalgo County AA	76.93	587	71,992	3,411	422,235	64	5,555	20	12,039	4,062	499,782	75.51
Limited Review:												
Cameron County AA	15.34	155	24,518	639	59,486	16	746	4	3,670	810	84,750	15.98
Starr County AA	7.73	148	2,814	208	18,109	52	3,231	6	2,590	408	24,154	8.51

* Loan Data as of October 19, 2009. Rated area refers to either the state or multi-state MA rating area.

** The evaluation period for Community Development Loans is November 13, 2006 to October 19, 2009.

*** Deposit Data as of June 30, 2009. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

Table 2. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE		Geography: TEXAS					Evaluation Period: JANUARY 1, 2007 TO JUNE 30, 2009					Market Share (%) by Geography*				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans						
Full Review:																
Hidalgo County AA	300	77.52	0.00	0.00	27.56	14.00	48.45	34.67	23.99	51.33	1.23	0.00	1.08	0.96	1.55	
Limited Review:																
Cameron County AA	80	20.67	0.87	0.00	21.06	8.75	43.90	21.25	34.18	70.00	0.50	0.00	0.43	0.51	0.52	
Starr County AA	7	1.81	60.31	42.86	39.69	57.14	0.00	0.00	0.00	0.00	0.49	0.00	0.87	0.00	0.00	

* Based on 2007 Peer Mortgage Data: Western Region.

** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

Table 3. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT												Geography: TEXAS		Evaluation Period: JANUARY 1, 2007 TO JUNE 30, 2009				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography							
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp			
Full Review:																		
Hidalgo County AA	207	51.88	0.00	0.00	27.56	15.94	48.45	41.06	23.99	43.00	6.25	0.00	6.35	4.74	8.58			
Limited Review:																		
Cameron County AA	54	13.53	0.87	0.00	21.06	16.67	43.90	33.33	34.18	50.00	2.43	0.00	2.23	1.78	3.51			
Starr County AA	138	34.59	60.31	56.52	39.69	43.48	0.00	0.00	0.00	0.00	44.00	41.46	48.84	0.00	0.00			

* Based on 2007 Peer Mortgage Data: Western Region.

** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 2000 Census information.

Table 4. Geographic Distribution of Home Mortgage Refinance Loans

Geographic Distribution: HOME MORTGAGE REFINANCE											Geography: TEXAS Evaluation Period: JANUARY 1, 2007 TO JUNE 30, 2009				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full Review:															
Hidalgo County AA	60	78.95	0.00	0.00	27.56	16.67	48.45	46.67	23.99	36.67	0.28	0.00	0.12	0.32	0.29
Limited Review:															
Cameron County AA	15	19.74	0.87	6.67	21.06	0.00	43.90	33.33	34.18	60.00	0.12	0.00	0.00	0.19	0.08
Starr County AA	1	1.32	60.31	0.00	39.69	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

* Based on 2007 Peer Mortgage Data: Western Region.

** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

*** Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 2000 Census information.

Table 5. Geographic Distribution of Multifamily Loans

Geographic Distribution: MULTIFAMILY			Geography: TEXAS						Evaluation Period: JANUARY 1, 2007 TO JUNE 30, 2009						
MA/Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*				
	#	% of Total**	% of MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full Review:															
Hidalgo County AA	20	71.43	0.00	0.00	11.56	25.00	31.77	60.00	56.67	15.00	20.31	0.00	20.00	36.36	7.41
Limited Review:															
Cameron County AA	6	21.43	2.93	0.00	15.31	16.67	19.84	33.33	61.92	50.00	13.64	0.00	16.67	15.38	12.00
Starr County AA	2	7.14	24.75	0.00	75.25	100.00	0.00	0.00	0.00	0.00	50.00	0.00	100.00	0.00	0.00

* Based on 2007 Peer Mortgage Data: Western Region.

** Multifamily loans originated and purchased in the MA/AA as a percentage of all multifamily loans originated and purchased in the rated area.

*** Percentage of multifamily units is the number of multifamily housing units in a particular geography divided by number of multifamily housing units in the area based on 2000 Census information.

Table 6. Geographic Distribution of Small Loans to Businesses

Geographic Distribution: SMALL LOANS TO BUSINESSES												Geography: TEXAS		Evaluation Period: JANUARY 1, 2007 TO JUNE 30, 2009			
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography						
	#	% of Total	% of Businesses ***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	Overall	Low	Mod	Mid	Upp		
Full Review:																	
Hidalgo County AA	3,411	80.11	0.00	0.00	19.99	13.02	42.50	31.37	37.51	55.61	8.66	0.00	6.23	8.23	10.66		
Limited Review:																	
Cameron County AA	639	15.01	2.63	2.35	26.77	15.81	34.48	26.92	36.13	54.93	3.04	1.50	1.81	2.69	4.51		
Starr County AA	208	4.88	52.15	40.87	47.85	59.13	0.00	0.00	0.00	0.00	12.71	9.73	17.33	0.00	0.00		

* Based on 2008 Peer Small Business Data: US and PR.

** Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

*** Source Data - Dun and Bradstreet 2009.

Table 7. Geographic Distribution of Small Loans to Farms

Geographic Distribution: SMALL LOANS TO FARMS															Geography: TEXAS		Evaluation Period: JANUARY 1, 2007 TO JUNE 30, 2009				
MA/Assessment Area:	Total Small Farm Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography*										
	#	% of Total**	% of Farms***	% BANK Loans	% of Farms***	% BANK Loans	% of Farms***	% BANK Loans	% of Farms***	% BANK Loans	Overall	Low	Mod	Mid	Upp						
Full Review:																					
Hidalgo County AA	64	48.48	0.00	0.00	15.49	17.19	51.30	50.00	33.20	32.81	7.53	0.00	2.94	9.46	10.53						
Limited Review:																					
Cameron County AA	16	12.12	0.37	6.25	9.14	0.00	56.72	31.25	33.77	62.50	3.10	0.00	0.00	0.00	11.11						
Starr County AA	52	39.39	46.81	40.38	53.19	59.62	0.00	0.00	0.00	0.00	29.63	42.86	23.33	0.00	0.00						

* Based on 2008 Peer Small Business Data: US and PR.

** Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

*** Source Data - Dun and Bradstreet 2009.

Table 8. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE		Geography: TEXAS					Evaluation Period: JANUARY 1, 2007 TO JUNE 30, 2009					Market Share				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% Families ***	% BANK Loans ****	% Families ***	% BANK Loans ****	% Families ***	% BANK Loans ****	% Families ***	% BANK Loans ****						
Full Review:																
Hidalgo County AA	300	77.52	23.48	2.90	16.86	5.80	17.67	9.78	41.98	81.52	1.23	8.82	2.67	0.90	1.16	
Limited Review:																
Cameron AA	80	20.67	23.75	1.41	16.04	5.63	17.82	7.04	42.40	85.92	0.44	0.00	0.65	0.42	0.43	
Starr County AA	7	1.81	51.01	14.29	19.87	28.57	13.68	14.29	15.45	42.86	0.55	11.11	0.00	0.00	0.00	

* Based on 2007 Peer Mortgage Data: Western Region. Data shown includes only one-to-four family and manufactured housing. (Property type of 1 or 2)

** Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

*** Percentage of Families is based on the 2000 Census information.

**** As a percentage of loans with borrower income information available. No information was available for 8.5% of loans originated and purchased by Bank.

Table 9. Borrower Distribution of Home Improvement Loans

Borrower Distribution: HOME IMPROVEMENT		Geography: TEXAS					Evaluation Period: JANUARY 1, 2007 TO JUNE 30, 2009					Market Share				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall	Low	Mod	Mid	Upp	
	#	% of Total**	% Families ***	% BANK****	% Families ***	% BANK****	% Families ***	% BANK****	% Families ***	% BANK****						
Full Review:																
Hidalgo County AA	207	51.88	23.48	10.07	16.86	12.75	17.67	14.77	41.98	62.42	5.43	7.14	7.14	4.74	5.17	
Limited Review:																
Cameron County AA	54	13.53	23.75	2.38	16.04	7.14	17.82	7.14	42.40	83.33	2.01	1.49	0.67	0.67	2.92	
Starr County AA	138	34.59	51.01	34.38	19.87	21.88	13.68	16.67	15.45	27.08	42.02	53.85	44.12	40.91	32.43	

* Based on 2007 Peer Mortgage Data: Western Region. Data shown includes only one-to-four family and manufactured housing. (Property type of 1 or 2)

** Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

*** Percentage of Families is based on the 2000 Census information.

**** As a percentage of loans with borrower income information available. No information was available for 28.10% of loans originated and purchased by Bank.

Table 10. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE												Geography: TEXAS		Evaluation Period: JANUARY 1, 2007 TO JUNE 30, 2009				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share							
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Overall	Low	Mod	Mid	Upp			
Full Review:																		
Hidalgo County AA	60	78.95	23.48	0.00	16.86	9.26	17.67	14.81	41.98	75.93	0.21	0.00	0.84	0.63	0.11			
Limited Review:																		
Cameron County AA	15	19.74	23.75	0.00	16.04	0.00	17.82	0.00	42.40	100.00	0.13	0.00	0.00	0.00	0.17			
Starr County AA	1	1.32	51.01	0.00	19.87	0.00	13.68	0.00	15.45	100.00	0.00	0.00	0.00	0.00	0.00			

* Based on 2007. Peer Mortgage Data: Western Region. Data shown includes only one-to-four family and manufactured housing. (Property type of 1 or 2)

** Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

*** Percentage of Families is based on the 2000 Census information.

**** As a percentage of loans with borrower income information available. No information was available for 10.50% of loans originated and purchased by Bank.

Table 11. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES					Geography: TEXAS		Evaluation Period: JANUARY 1, 2007 TO JUNE 30, 2009		
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share*	
	#	% of Total**	% of Businesses***	% BANK****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev \$1 Million or Less
Full Review:									
Hidalgo County AA	3,411	80.11	73.11	60.74	68.57	17.94	13.49	8.66	15.64
Limited Review:									
Cameron County AA	639	15.01	72.73	61.35	74.33	17.84	7.82	3.04	4.99
Starr County AA	208	4.88	71.05	64.42	81.73	8.17	10.10	12.71	21.69

* Based on 2008 Peer Small Business Data: US and PR.

** Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

*** Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2009).

**** Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 25.86% of small loans to businesses originated and purchased by the Bank.

Table 12. Borrower Distribution of Small Loans to Farms

Borrower Distribution: SMALL LOANS TO FARMS					Geography: TEXAS		Evaluation Period: JANUARY 1, 2007 TO JUNE 30, 2009		
MA/Assessment Area:	Total Small Loans to Farms		Farms With Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share*	
	#	% of Total**	% of Farms***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$500,000	All	Rev \$1 Million or Less
Full Review:									
Hidalgo County AA	64	48.48	92.84	82.81	70.31	21.88	7.81	7.53	9.32
Limited Review:									
Cameron County AA	16	12.12	96.83	75.00	87.50	12.50	0.00	3.10	3.64
Starr County AA	52	39.39	93.62	90.38	88.46	5.77	5.77	29.63	48.48

* Based on 2008 Peer Small Business Data: US and PR.

** Small loans to farms originated and purchased in the MA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

*** Farms with revenues of \$1 million or less as a percentage of all farms (Source D&B -2009).

**** Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 13.64% of small loans to farms originated and purchased by Bank.

Table 14. Qualified Investments

QUALIFIED INVESTMENTS		Geography: TEXAS				Evaluation Period: NOVEMBER 13, 2006 TO OCTOBER 19, 2009				
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**		
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)	
Full Review:										
Hidalgo County AA	0	0	47	78	47	78	42.54	0	0	
Limited Review:										
Cameron County AA	0	0	3	1	3	1	0.55	0	0	
Starr County AA	0	0	6	2	6	2	1.10	0	0	
Regional Lower Rio Grande Valley Area	1	100	0	0	1	100	55.25	0	0	

* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

** 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

Table 15. Distribution of Branch Delivery System and Branch Openings/Closings

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS Geography: TEXAS Evaluation Period: NOVEMBER 13, 2006 TO OCTOBER 19, 2009																	
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings						Population			
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full Review:																	
Hidalgo County AA	75.51	17	65.38	0.00	11.76	17.65	70.59	5	0	0	0	1	4	0.00	29.73	48.29	21.98
Limited Review:																	
Cameron County AA	15.98	7	26.92	0.00	42.86	28.57	28.57	1	0	0	0	1	0	2.26	25.87	42.69	29.18
Starr County AA	8.51	2	7.69	100.0	0.00	0.00	0.00	1	0	1	0	0	0	60.07	39.93	0.00	0.00