



**PUBLIC DISCLOSURE**

January 6, 2014

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

Lubbock National Bank  
Charter Number 16752  
4811 50th Street, Lubbock, TX 79414

Office of the Comptroller of the Currency  
Lubbock Field Office  
5225 South Loop 289, Suite 108, Lubbock, TX 79424-1319

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

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

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

Lubbock National Bank (LNB) has a satisfactory record of meeting community credit needs based on the following:

- LNB's loan-to-deposit ratio is reasonable with a quarterly average loan-to-deposit ratio of 61 percent.
- A majority of LNB's loans are within the bank's AAs. Approximately 89 percent of the number and 82 percent of the dollar volume of loans were made within the assessment areas (AAs).
- The lending performance to businesses of different sizes and to individuals of different income levels is reasonable.
- The geographic distribution of loans to small businesses and home mortgage loans reflects a reasonable dispersion throughout the AAs.
- LNB's community development performance demonstrates an excellent responsiveness to the needs of its AAs through community development loans, qualified investments, and community development services.

## **Scope of Examination**

We evaluated LNB using the Intermediate Small Bank evaluation procedures, which include Lending and Community Development Tests. The Lending Test evaluates the bank's record of meeting the credit needs of its AAs through lending activities. The Community Development Test evaluates the bank's responsiveness to the identified needs in its AAs through lending, qualified investments, and services.

The bank's predominant primary loan product for all AAs is loans to businesses. Home mortgage loans, although much lower in volume, are also a primary loan product for the Lubbock, TX MSA and College Station-Bryan MSA AAs. Lending information by loan type for each AA is presented in two tables due to a change in U.S. Census demographic data. Loans originated from January 1, 2010 through December 31, 2011 are combined and evaluated against 2000 U.S. Census data; loans originated from January 1, 2012 through December 31, 2013 are combined and evaluated against 2010 U.S. Census data. We validated the accuracy of the bank's Home Mortgage Disclosure Act (HMDA) information for 2010-2013, with corrections made by the bank as needed prior to use for this evaluation.

The evaluation period for the Community Development Test uses information from the previous CRA evaluation period, November 10, 2009, through December 31, 2013.

## Description of Institution

LNB is an \$805 million intrastate institution that is headquartered in Lubbock, TX in the South Plains area of the state. LNB is a wholly owned subsidiary of Commerce National Financial Services, Inc. (CNFS). As of December 31, 2013, CNFS's assets totaled \$805 million, with LNB comprising 99.9 percent of those assets.

LNB has 12 offices and operates 11 automated teller machines (ATMs) in three AAs. Seven locations, including the main banking office, are in the Lubbock, TX MSA AA, which is the bank's primary market area. However, one of these locations is LNB's operations center and does not function as a branch facility. Four offices are located in the College Station-Bryan, TX MSA AA, and one office is in the Austin-Round Rock, TX MSA AA. All five offices located outside the Lubbock, TX MSA AA are marketed under the name of "Commerce National Bank, a branch of Lubbock National Bank." Since the last evaluation, LNB opened one branch in 2011, a full service office in College Station, TX. LNB has not closed any branches.

As of September 30, 2013, LNB had total assets of \$805 million, with net loans and leases comprising 51 percent of this total. LNB is primarily a commercial lender, consistent with its business strategy, and loan volumes are heavily concentrated in larger commercial and commercial real estate loans and leases approximating 80 percent of the portfolio. LNB also originates residential mortgage loans and consumer loans. Through mid-2012, the bank's residential products include conventional, FHA, and VA loans that were subsequently sold into the secondary market. In July 2012, LNB closed its mortgage department and now limits residential loans to existing customers and retains the loans for its own portfolio. As a result, HMDA-reportable residential mortgage loan volume in 2013 was about 20 percent of 2010 and 2011 volume. The following table reflects the composition of the bank's loan portfolio as of September 30, 2013.

<b>Loan Portfolio Composition</b>		
<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate and Construction	187,013	45.8%
Commercial and Industrial	124,519	30.5%
Lease Financing	13,243	3.2%
Residential Real Estate	73,572	18.0%
Consumer	7,580	1.8%
Agricultural Real Estate and Production	2,688	0.7%
Other	74	0.0%
<b>TOTAL</b>	<b>\$408,689</b>	<b>100.0%</b>

LNB provides a full range of traditional deposit and loan products, plus trust and retail brokerage services. Lobby and drive-up hours are set by each location to meet customer needs, and LNB has ATMs at branches and other locations to increase accessibility. Customers may also access their accounts through telephone banking or via the Internet at [www.lubbocknational.com](http://www.lubbocknational.com) or [www.commercenb.com](http://www.commercenb.com). LNB's Internet banking program offers a feature to deposit checks electronically, transfer funds, check account balances, and pay bills. The bank also provides auto loans and other consumer loans through its Internet loan application interface.

The bank received a “Needs to Improve” rating at the November 10, 2009 CRA evaluation. LNB has no legal or financial circumstances that would impede the bank’s ability to help meet community credit needs.

## Description of Assessment Areas

The Lubbock, TX MSA AA is the bank’s primary AA. The College Station-Bryan, TX MSA AA and the Austin-Round Rock, TX MSA AA are substantially less significant when considering the bank’s overall operations, branch network, lending and deposit levels, and deposit market share. Demographic and economic information for each of the three assessment areas is reflected in the following table:

<b>Demographic and Economic Characteristics</b>			
<b>Assessment Area</b>	<b>Lubbock, TX MSA</b>	<b>College Station – Bryan, TX MSA</b>	<b>Austin – Round Rock, TX MSA</b>
<b><i>Population</i></b>			
Number of Families	66,460	46,743	388,214
Number of Households	104,314	79,087	620,073
<b><i>Geographies</i></b>			
Number of Census Tracts	71	52	350
% Low-Income Census Tracts	11.27	11.54	10.29
% Moderate-Income Census Tracts	21.13	26.92	24.57
% Middle-Income Census Tracts	36.62	30.77	35.14
% Upper-Income Census Tracts	29.58	26.92	29.14
% N/A Census Tracts	1.40	3.85	0.86
<b><i>Median Family Income (MFI)</i></b>			
2010 MFI for AA	\$54,600	\$43,916	\$71,602
2013 MFI for AA	\$56,700	\$54,900	\$73,200
2012 HUD-Adjusted MFI	\$55,600	\$58,200	\$75,900
2011 HUD-Adjusted MFI	\$54,900	\$57,400	\$74,900
2010 HUD-Adjusted MFI	\$54,600	\$57,000	\$73,800
2009 HUD-Adjusted MFI	\$52,900	\$56,100	\$73,330
<b><i>Economic Indicators</i></b>			
Unemployment Rate	3.78%	3.84%	4.41%
2010 Median Housing Value	\$100,070	\$127,252	\$204,319
% of Households Below Poverty Level	18.33	27.31	12.34

*Source: 2010 Census data and updated HUD income data*

### **Lubbock, TX MSA AA**

The AA is comprised of two counties, Lubbock County and Crosby County, located in the South Plains area of West Texas with a total population of 284,890. The city of Lubbock (population 229,573) is the county seat of Lubbock County and the population center of the MSA. Crosby County is located east of Lubbock County. All of the bank’s offices are located within the city

of Lubbock. The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA has 71 census tracts, of which 8 are low-income and 15 are moderate-income.

Economic conditions are very good, reflecting improvement after a slight decline in 2010 and 2011. Lubbock's population continues to grow. The Lubbock Economic Index (LEI) for September 2013 indicates the economy has been improving for 18 consecutive months. Historically, Lubbock's economy outperforms the rest of the state and the nation overall. Lubbock's current unemployment rate at 3.78 percent remains one of the lowest in Texas and is well below the national rate of 7 percent. The area is primarily reliant on agriculture, but Texas Tech University also contributes significantly to the economy. Primary employers are Covenant Healthcare Systems, Texas Tech University, Texas Tech Health Sciences Center, University Medical System, and United Supermarkets. The local agricultural economy continues to be adversely affected by declining government subsidies of agricultural products, increased production and transportation costs, and severe drought conditions. Government and professional jobs are increasing, as is the number of retirees in the community. Retirees are drawn to Lubbock by a lower cost of living and favorable access to quality healthcare.

Lubbock has a lower level of owner-occupied housing than in other comparable cities due to the population of college students. According to the 2010 Census data, there are 116,662 total housing units in the AA, of which 54 percent are owner-occupied, 36 percent are renter-occupied, and 10 percent are vacant. Bank management states that a high number of new construction projects are for additional rental units to house college students. Per the LEI, the average home sale price for 2013 has increased to \$154,000. However, housing affordability is the best of any metropolitan area in Texas, contributing to the incentive for individuals to move to the area.

Banking competition is strong in the AA and includes national, regional, and community banks. As of June 30, 2013 LNB's deposit market share in the AA was 7.91 percent, ranking fifth among 26 financial institutions. PlainsCapital Bank, City Bank, and Prosperity Bank dominate market share, each exceeding 10 percent. Approximately 76 percent of LNB's deposits and 60 percent of LNB's loans are attributable to this AA.

A community contact conducted for this evaluation did not identify any unmet credit needs. The contact indicated that Lubbock banks have a good history of meeting the credit needs of the community, including support for both small and large businesses. The numerous banks in Lubbock actively participate in a wide variety of community activities.

### **College Station-Bryan, TX MSA AA**

The AA is comprised of three counties, Brazos, Burt, and Robertson Counties, located 100 miles northwest of Houston and 120 miles east of Austin with a total population of 228,660. The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA has 52 census tracts, of which 6 are low-income and 14 are moderate-income.

Economic conditions are good, reflecting improvement after a moderate decline from 2008 through 2011. The Bryan/College Station Economic Index (BEI) for September 2013 showed peak results for the most recent data. Other economic indicators such as taxable receipts and unemployment numbers also point toward a rebounding economy. The current unemployment rate is very low at 3.8 percent. Similar to the Lubbock, TX MSA AA, this AA also benefits from a large state university. Texas A&M University, with a student body of more than 45,000, is located in this MSA. A number of businesses employing persons with doctorate degrees and a number of research firms have started in the AA. Major employers include Texas A&M University, St. Joseph Health System, Bryan and College Station Independent School Districts, Sanderson Farms, and Reynolds & Reynolds (computer hardware/software).

College Station-Bryan also has a lower level of owner-occupied housing than in other comparable cities due to the population of college students. According to the 2010 Census data, there are 91,594 total housing units in the AA, of which 44 percent are owner-occupied, 42 percent are renter-occupied, and 14 percent are vacant. Homes are generally affordable.

Banking competition is strong in the AA and includes national, regional, and community banks. As of June 30, 2013 LNB's deposit market share in the AA was 2.74 percent, ranking 12th among 22 financial institutions. Citibank, N.A., Wells Fargo, N.A., and Prosperity Bank dominate market share, each exceeding 10 percent. Only about 10 percent of LNB's deposits and 21 percent of LNB's loans are attributable to this AA.

A community contact conducted for this evaluation did not identify any unmet credit needs. The contact stated that many area banks have expressed a willingness to work with low- and moderate-income individuals in the area, including through the city's Down Payment Assistance Program. This program helps educate individuals about eligibility standards and assists them in completing the necessary steps to meet mortgage requirements.

### **Austin-Round Rock, TX MSA AA**

The AA is comprised of five counties, Travis, Williamson, Bastrop, Caldwell, and Hays Counties, located in Central Texas with a total population of 1,716,289. The AA consists of whole geographies and does not arbitrarily exclude low- and moderate-income geographies. The AA has 350 census tracts, of which 36 are low-income and 86 are moderate-income.

Economic conditions are satisfactory, reflecting rapid improvement after a significant decline from 2008 through 2010. The local economy is heavily dependent on state, city, and federal government activities and the University of Texas (UT). UT has a history of a high level of patents coming from its research program, and there is ongoing demand for technical and professional expertise. The largest private employers in the area include H-E-B Grocers, Seton Healthcare Network, and three major computer hardware/software/technology companies. The average sales price for a home has declined to \$243,000. The unemployment rate at 4.41 percent continues to compare favorably to state and national unemployment rates. There are 676,169 housing units in the AA, of which 54 percent are owner-occupied, 37 percent are renter-occupied, and 8 percent are vacant. Housing is generally affordable.

Banking competition is very strong in the AA and includes national, regional, and community banks. As of June 30, 2013 LNB's deposit market share in the AA was only 0.17 percent, ranking 42nd among 72 financial institutions. Wells Fargo Bank, N.A., Bank of America, N.A., and JPMorgan Chase Bank, N.A. dominate market share, each exceeding 15 percent. Only about 5 percent of LNB's deposits and 18 percent of LNB's loans are attributable to this AA.

A community contact conducted for this evaluation did not identify any unmet credit needs. The contact stated that the overall performance of local financial institutions is positive and that they are supportive of the various projects that are sponsored by area economic development organizations.

## Conclusions with Respect to Performance Criteria

### LENDING TEST

#### Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. This determination is based on the bank's quarterly average loan-to-deposit ratio of 61.08 percent since the last CRA evaluation in November 2009. During that time, LNB's loan-to-deposit ratio ranged from 55 percent to 72 percent. The average loan-to-deposit ratio of five similarly situated banks operating within one or more of the AAs for the same period was 68 percent:

Loan-to-Deposit Ratios		
Institution	Total Assets \$000s As of 9/30/13	Average Loan-to-Deposit Ratio
The First National Bank of Bastrop	391,741	61.75
<b>Lubbock National Bank</b>	<b>805,472</b>	<b>61.08</b>
American Bank of Commerce	684,908	70.47
First Bank & Trust Company	608,448	90.65
The Bank and Trust of Bryan/College Station	358,272	79.53
First Texas Bank	515,908	37.59

*Source: Reports of Condition from September 30, 2009 to September 30, 2013*

LNB's loan-to-deposit ratio peaked at the end of 2008, prior to this evaluation period. The bank's quarterly average loan-to-deposit ratio is reasonable, despite being slightly below the average of similarly situated banks. LNB maintained its loan-to-deposit ratio through 2009, and then the ratio began to decline due to the adverse effect of the recession on the financial condition of some existing small business customers combined with reduced commercial lending opportunities. The bank's high concentration in commercial loans exacerbated the decline. Recently, loan production has increased in concert with the improvement in the overall economy. However, economic improvement is offsetting some of this growth through the pre-payment of loans and moderate deposit growth.

## Lending in Assessment Areas

A majority of the LNB's primary loan products were made inside the bank's AAs. To assess performance, we sampled 169 commercial and included all 891 home mortgage loans originated between January 1, 2010 and December 31, 2013. Our analysis determined that 89 percent of the number of loans and 82 percent of the dollar amount of loans in the sample were originated within the bank's combined AAs. Results by loan category are depicted in the following table:

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Small Business	148	87.57	21	12.43	169	81,906	80.79	19,472	19.21	101,378
Home Purchase	383	88.86	48	11.14	431	71,948	79.68	18,345	20.32	90,293
Home Improvement	84	84.00	16	16.00	100	3,482	82.10	759	17.90	4,241
Refinance	332	92.22	28	7.78	360	57,087	87.42	8,214	12.58	65,301
<b>Totals</b>	<b>947</b>	<b>89.34</b>	<b>113</b>	<b>10.66</b>	<b>1,060</b>	<b>214,423</b>	<b>82.09</b>	<b>46,790</b>	<b>17.91</b>	<b>261,213</b>

*Source: Loans reported under 2010-2013 HMDA data submissions and a sample of small business loans.*

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

The distribution of loans made to businesses of different sizes and individuals of different income levels reflects a reasonable penetration. The distribution of loans to businesses was reasonable for all AAs, and the distribution of home mortgage loans to low- and moderate-income individuals is reasonable for the Lubbock, TX MSA AA and poor for the College Station-Bryan, TX MSA AA.

### Lubbock, TX MSA AA

The distribution of loans to businesses reflects a reasonable penetration among businesses of different sizes. Lending performance in 2010 and 2011 was excellent, with 61 percent of commercial loans by number and 71 percent by dollar amount originated to businesses with revenues less than \$1 million. This compares very favorably to demographic data showing that 62 percent of the area's businesses are considered small. Lending performance in 2012 and 2013 was poor, with 39 percent of commercial loans by number and 21 percent by dollar amount originated to businesses with revenues less than \$1 million. This compares unfavorably to demographic data showing that 69 percent of the area's businesses are considered small. During this time, LNB increased its focus on originating larger commercial loans that qualify for consideration under the Community Development Test to improve its rating in that category. While successful, those loans do not qualify for consideration under the Lending Test. The following tables show the distribution of loans in this AA:

<b>2010-2011 Borrower Distribution of Loans to Businesses in Lubbock, TX MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	62.12	2.64	35.24	100%
% of Bank Loans in AA by #	60.71	28.57	10.71	100%
% of Bank Loans in AA by \$	71.02	25.93	3.05	100%

*Source: 2010-2011 Loan sample; Dun and Bradstreet data.*

<b>2012-2013 Borrower Distribution of Loans to Businesses in Lubbock, TX MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69.38	3.45	27.17	100%
% of Bank Loans in AA by #	39.13	47.83	13.04	100%
% of Bank Loans in AA by \$	20.95	77.39	1.66	100%

*Source: 2012-2013 Loan sample; Dun and Bradstreet data.*

The distribution of home mortgage loans to borrowers reflects reasonable penetration among borrowers of different income levels. In 2010-2011, LNB originated 271 home mortgage loans, including 124 home purchase, 25 home improvement, and 122 refinance. LNB has a poor penetration level of home mortgage loans to low-income borrowers, as lending levels in all three loan categories are below or well below the percentage of low-income families in the AA of 21 percent. However, this is reasonable performance given the high poverty rate of 18 percent and a significant increase in home values, both of which make it challenging for low-income borrowers to qualify for mortgages. The borrower distribution of home purchase (13 percent) and home improvement loans (17 percent) for moderate-income borrowers is reasonable as performance is near the demographic data for moderate-income families (18 percent). The borrower distribution of refinance loans (6 percent) to moderate-income borrowers is poor.

In 2012-2013, LNB originated 169 home mortgage loans, including 71 home purchase, 50 home improvement, and 48 refinance. This decline in volume results from the closure of the mortgage department in mid-2012. The borrower distribution of home purchase loans is excellent, as loans to moderate-income borrowers (20 percent) exceed the demographic data for moderate-income families (18 percent). Home purchase loans to low-income borrowers (20 percent) are near the demographic (21 percent), despite the high poverty level and increasing home prices noted above. The borrower distribution of home improvement loans is reasonable, with loans to moderate-income borrowers (17 percent) near the demographic and loans to low-income borrowers (9 percent) well below the demographic. The borrower distribution of refinance loans is very poor for both low- and moderate-income borrowers. The following tables show the distribution of loans in this AA:

<b>2010-2011 Borrower Distribution of Residential Real Estate Loans in Lubbock, TX MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21.02	8.57	17.88	13.33	20.74	23.81	40.36	54.29
Home Improvement	21.02	8.33	17.88	16.67	20.74	33.33	40.36	41.67
Refinance	21.02	4.24	17.88	5.93	20.74	15.25	40.36	74.58

Source: 2010 and 2011 HMDA Reported Loans; 2000 U. S. Census Data

<b>2012-2013 Borrower Distribution of Residential Real Estate Loans in Lubbock, TX MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	21.41	20.45	18.04	20.45	19.13	18.18	41.41	40.91
Home Improvement	21.41	8.51	18.04	17.02	19.13	21.28	41.41	53.19
Refinance	21.41	0.00	18.04	4.55	19.13	11.36	41.41	84.09

Source: 2012 and 2013 HMDA Reported Loans; 2010 U. S. Census Data.

College Station-Bryan, TX MSA AA

The distribution of loans to businesses reflects a reasonable penetration among businesses of different sizes. Lending performance in 2010 and 2011 was reasonable, with 52 percent of commercial loans by number originated to businesses with revenues less than \$1 million. This is somewhat below demographic data showing that 69 percent of the area’s businesses are considered small. Lending performance in 2012 and 2013 was also reasonable, with 56 percent of commercial loans by number originated to businesses with revenues less than \$1 million. This is somewhat below demographic data showing that 72 percent of the area’s businesses are considered small. During this time, LNB increased its focus on originating larger commercial loans that qualify for consideration under the Community Development Test to improve its rating in that category. While successful, those loans do not qualify for consideration under the Lending Test. In addition, we were unable to obtain revenue information for 20 percent of the bank’s commercial loans in 2010-2011, which may have affected sampling results. The following tables show the distribution of loans in this AA:

<b>2010-2011 Borrower Distribution of Loans to Businesses in Bryan-College Station, TX MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68.84	2.18	28.98	100%
% of Bank Loans in AA by #	52.00	28.00	20.00	100%
% of Bank Loans in AA by \$	11.36	85.62	3.02	100%

Source: 2010-2011 Loan sample; Dunn and Bradstreet data.

<b>2012-2013 Borrower Distribution of Loans to Businesses in Bryan-College Station, TX MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72.08	3.19	24.73	100%
% of Bank Loans in AA by #	56.00	32.00	12.00	100%
% of Bank Loans in AA by \$	17.64	58.18	24.18	100%

Source: 2012-2013 Loan sample; Dun and Bradstreet data.

The distribution of home mortgage loans to borrowers reflects poor penetration among borrowers of different income levels. In 2010-2011, LNB originated 239 home mortgage loans, including 139 home purchase, 1 home improvement, and 99 refinance. The borrower distribution of home purchase loans is reasonable. Loans to low-income borrowers (1 percent) are well below the demographic data for low-income families (24 percent), and loans to moderate-income borrowers (9 percent) are below the demographic data for moderate-income families (17 percent). However, this is reasonable performance given the very high poverty rate of 25 percent and a significant increase in home values, both of which make it challenging for low-income and some moderate-income borrowers to qualify for mortgages. The borrower distribution of refinance loans is poor, with loans to low-income borrowers (1 percent) and moderate-income borrowers (4 percent) well below the demographic. The borrower distribution of home improvement loans is not meaningful due to low volume.

In 2012-2013, LNB originated 94 home mortgage loans, including 28 home purchase, 7 home improvement, and 59 refinance. This decline in volume results from the closure of the mortgage department in mid-2012. The borrower distribution of home purchase loans is poor, as loans to low-income borrowers (0 percent) and moderate-income borrowers (5 percent) are well below the demographic data for low-income families (26 percent) and moderate-income families (14 percent). Some of this disparity is attributable to the very high poverty level and increasing home prices noted above. The borrower distribution of refinance loans is reasonable, with loans to low-income borrowers (13 percent) below the demographic and loans to moderate-income borrowers (0 percent) well below the demographic. The borrower distribution of home improvement loans is not meaningful due to low volume. The following tables show the distribution of loans in this AA:

<b>2010-2011 Borrower Distribution of Residential Real Estate Loans in College Station-Bryan, TX MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
Home Purchase	23.88	1.44	16.53	8.63	18.30	20.14	41.29	69.78
Home Improvement	23.88	0.00	16.53	0.00	18.30	0.00	41.29	100.00
Refinance	23.88	1.04	16.53	4.17	18.30	16.67	41.29	78.13

Source: 2010-2011 HMDA Reported Loans; U. S. Census Data

<b>2012-2013 Borrower Distribution of Residential Real Estate Loans in College Station-Bryan, TX MSA AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	25.72	0.00	14.43	5.26	18.08	15.79	41.77	78.95
Home Improvement	25.72	28.57	14.43	0.00	18.08	14.29	41.77	57.14
Refinance	25.72	12.50	14.43	0.00	18.08	12.50	41.77	75.00

*Source: 2012-2013 HMDA Reported Loans; U. S. Census Data*

Austin-Round Rock, TX MSA AA

The distribution of loans to businesses reflects a reasonable penetration among businesses of different sizes. Lending performance in 2010 and 2011 was reasonable, with 61 percent of commercial loans by number originated to businesses with revenues less than \$1 million. This is near demographic data showing that 66 percent of the area’s businesses are considered small. Lending performance in 2012 and 2013 was also reasonable, with 50 percent of commercial loans by number originated to businesses with revenues less than \$1 million. This is somewhat below demographic data showing that 71 percent of the area’s businesses are considered small. During this time, LNB increased its focus on originating larger commercial loans that qualify for consideration under the Community Development Test to improve its rating in that category. While successful, those loans do not qualify for consideration under the Lending Test. The following tables show the distribution of loans in this AA:

<b>2010-2011 Borrower Distribution of Loans to Businesses in Austin-Round Rock, TX MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.32	2.09	31.59	100%
% of Bank Loans in AA by #	60.87	26.09	13.04	100%
% of Bank Loans in AA by \$	62.38	13.60	24.02	100%

*Source: 2010-2011 Loan sample; Dun and Bradstreet data.*

<b>2012-2013 Borrower Distribution of Loans to Businesses in Austin-Round Rock, TX MSA AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.76	3.06	26.18	100%
% of Bank Loans in AA by #	50.00	41.67	8.33	100%
% of Bank Loans in AA by \$	24.48	32.92	42.23	100%

*Source: 2012-2013 Loan sample; Dun and Bradstreet data.*

The volume of home mortgage loans originated in 2010-2011 (12) and 2012-2013 (14) was insufficient for meaningful analysis.

## Geographic Distribution of Loans

The geographic dispersion of loans is reasonable, with loans to small businesses reflecting excellent dispersion in the Lubbock, TX MSA AA and reasonable dispersion in remaining AAs. In addition, home mortgage loans reflect reasonable dispersion in both applicable AAs.

### Lubbock, TX MSA AA

The geographic distribution of loans to small businesses reflects excellent dispersion. In 2010-2011, LNB's lending in low-income (0 percent) and moderate-income (18 percent) census tracts meets the demographic data for AA businesses in low-income (0 percent) and moderate-income (19 percent) census tracts. For 2012-2013, LNB's lending in low-income census tracts (30 percent) substantially exceeds the demographic (5 percent). While the lending in moderate-income census tracts (9 percent) is below the demographic (17 percent), this is excellent dispersion when considering the smaller remainder of loans available net of those originated in low-income census tracts. The following tables summarize the distribution of loans in this AA:

2010-2011 Geographic Distribution of Loans to Small Businesses in Lubbock, TX MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	0.46	0.00	18.87	17.86	41.50	39.29	39.17	42.86

*Source: 2010-2011 Loan sample; Dun and Bradstreet data.*

2012-2013 Geographic Distribution of Loans to Small Businesses in Lubbock, TX MSA AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	5.35	30.43	16.72	8.70	37.73	17.39	40.11	43.48

*Source: 2012-2013 Loan sample; Dun and Bradstreet data.*

The geographic distribution of home mortgage loans reflects reasonable dispersion. In 2010-2011, LNB did not originate any home mortgage loans in low-income census tracts, which was reasonable as there was only one low-income census tract containing only 0.26 percent of AA owner-occupied housing. Dispersion in moderate-income tracts during this period was poor as home purchase (15 percent), home improvement (8 percent), and refinance (2 percent) loans in moderate-income census tracts were below or well below the demographic (24 percent).

In 2012-2013, the low-income census tract demographic increased to 4 percent, and LNB had excellent dispersion of home purchase loans (13 percent) and poor dispersion of home improvement and refinance loans (0 percent). LNB also had excellent dispersion of home purchase (30 percent) and home improvement (20 percent) loans, and reasonable dispersion of

refinance (13 percent) loans to moderate-income borrowers, relative to the demographic (21 percent). The following tables show the distribution of loans in this AA:

<b>2010-2011 Geographic Distribution of Residential Real Estate Loans in Lubbock MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.26	0.00	23.78	15.32	43.81	36.29	32.15	48.39
Home Improvement	0.26	0.00	23.78	8.00	43.81	40.00	32.15	52.00
Refinance	0.26	0.00	23.78	2.46	43.81	25.41	32.15	72.13

*Source: 2010-2011 HMDA Reported Loans; U.S. Census Data*

<b>2012-2013 Geographic Distribution of Residential Real Estate Loans in Lubbock, TX MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	4.15	12.68	20.75	29.58	34.79	28.17	40.31	29.58
Home Improvement	4.15	0.00	20.75	20.00	34.79	30.00	40.31	50.00
Refinance	4.15	0.00	20.75	12.50	34.79	43.75	40.31	43.75

*Source: 2012-2013 HMDA Reported Loans; U.S. Census Data.*

#### College Station-Bryan, TX MSA AA

The geographic distribution of loans to small businesses reflects reasonable dispersion. In 2010-2011, LNB's lending in low-income census tracts (8 percent) substantially exceeded the demographic data for AA businesses in low-income census tracts (1 percent), but for 2012-2013, lending in low-income census tracts (0 percent) was substantially below the demographic (9 percent). For both time periods, lending in moderate-income census tracts (12 percent) was reasonable, but somewhat below the demographic (21 percent). The following tables summarize the geographic distribution of loans to small businesses:

<b>2010-2011 Geographic Distribution of Loans to Businesses in College Station-Bryan, TX MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	0.98	8.00	21.37	12.00	42.53	40.00	34.82	40.00

Source: 2010-2011 Loan sample; Dun and Bradstreet data.

<b>2012-2013 Geographic Distribution of Loans to Businesses in College Station-Bryan, TX MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	9.14	0.00	21.13	12.00	38.02	28.00	31.27	60.00

Source: 2012-2013 Loan sample; Dun and Bradstreet data.

The geographic distribution of home mortgage loans reflects reasonable dispersion. In 2010-2011, LNB did not originate any home mortgage loans in low-income census tracts, which was reasonable as they contained only 0.06 percent of AA owner-occupied housing. Dispersion in moderate-income tracts during this period was poor as home purchase (11 percent), home improvement (0 percent), and refinance (3 percent) loans in moderate-income census tracts were below or well below the demographic (21 percent).

In 2012-2013, the low-income census tract demographic increased to 5 percent, and LNB had excellent dispersion of home purchase loans (14 percent) and poor dispersion of home improvement (0 percent) and refinance loans (2 percent). LNB also had excellent dispersion of refinance (27 percent), reasonable dispersion of home purchase (21 percent), and very poor dispersion of home improvement (0 percent) loans to moderate-income borrowers, relative to the demographic (23 percent). The following tables show the distribution of loans in this AA:

<b>2010-2011 Geographic Distribution of Residential Real Estate Loans in College Station-Bryan, TX MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.06	0.00	21.07	10.79	49.53	28.78	29.34	60.43
Home Improvement	0.06	0.00	21.07	0.00	49.53	100.00	29.34	0.00
Refinance	0.06	0.00	21.07	3.03	49.53	37.37	29.34	59.60

Source: 2010-2011 HMDA Reported Loans; U.S. Census Data

<b>2012-2013 Geographic Distribution of Residential Real Estate Loans in College Station-Bryan, TX MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	4.60	14.29	22.61	21.43	36.74	17.86	36.05	46.43
Home Improvement	4.60	0.00	22.61	0.00	36.74	14.29	36.05	85.71
Refinance	4.60	1.69	22.61	27.12	36.74	54.24	36.05	16.95

Source: 2012-2013 HMDA Reported Loans; U.S. Census Data

#### Austin-Round Rock, TX MSA AA

The geographic distribution of loans to small businesses reflects reasonable dispersion. In 2010-2011, LNB's lending in low-income (0 percent) and moderate-income (4 percent) census tracts was poor as it was below the demographic data for AA businesses in low-income census tracts (4 percent) and well below the demographic for moderate-income census tracts (16 percent). For 2012-2013, LNB's lending in low-income (4 percent) and moderate-income (17 percent) census tracts was reasonable and near the demographics of 6 percent and 18 percent, respectively. The following tables summarize the geographic distribution of loans to small businesses:

<b>2010-2011 Geographic Distribution of Loans to Businesses in Austin-Round Rock, TX MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	3.75	0.00	15.81	4.35	38.77	13.04	41.62	82.61

Source: 2010-2011 Loan sample; Dun and Bradstreet data.

<b>2012-2013 Geographic Distribution of Loans to Businesses in Austin-Round Rock, TX MSA AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	6.13	4.17	17.73	16.67	31.27	29.16	44.81	50.00

Source: 2012-2013 Loan sample; Dun and Bradstreet data.

The volume of home mortgage loans originated in 2010-2011 (12 loans) and 2012-2013 (14 loans) was insufficient for meaningful analysis.

## Responses to Complaints

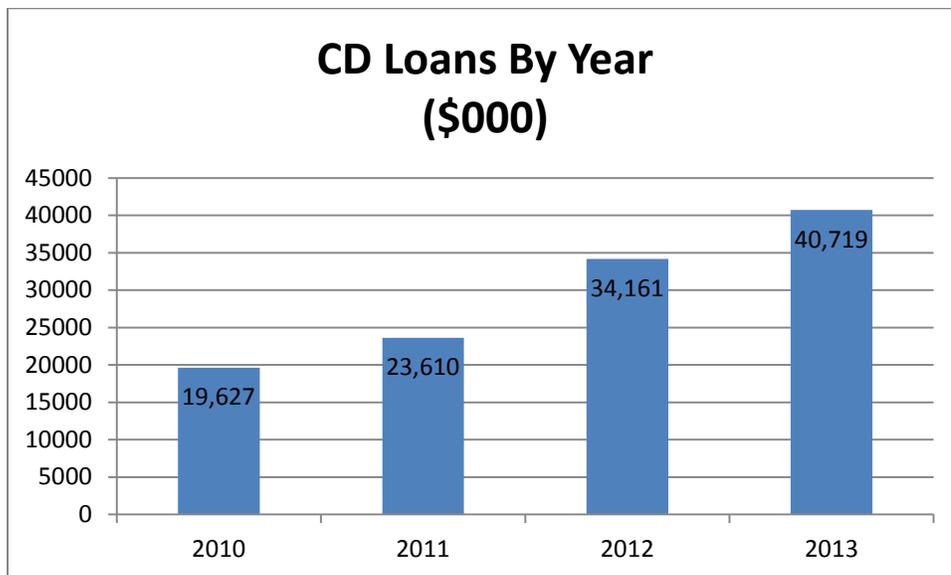
There have been no complaints related to the bank’s CRA performance during this evaluation period, which has a neutral effect on the bank’s overall performance.

## COMMUNITY DEVELOPMENT TEST

LNB’s performance under the Community Development (CD) Test is rated Outstanding. LNB shows excellent responsiveness to CD needs in its AAs through CD loans and qualified investments, and adequate responsiveness to CD needs in its AAs through CD services.

### Number and Amount of Community Development Loans

The level of CD lending reflects an excellent responsiveness to CD needs of the AAs. LNB originated 51 qualifying CD loans during the evaluation period totaling \$118 million, with all but one loan benefiting the bank’s AAs. This represents 152 percent of Tier 1 capital. From 2010 through 2013, the number and dollar amount of CD loans increased each year, consistent with the market during the economic recession and management’s focus on increasing CD lending.



In the Lubbock, TX MSA AA, LNB originated 27 loans totaling \$55,791,831 during the evaluation period. The majority of these loans were originated to four for-profit companies for revitalization/stabilization. As an example, LNB made four loans totaling \$10 million to an industrial manufacturing business located in a moderate-income census tract. This company provides specialized job training to hire and retain low- and moderate-income individuals, which comprise about 80 percent of its workforce. In 2012, LNB also made a CD loan to a for-profit business for affordable housing.

In the College Station-Bryan MSA AA, LNB originated seven loans totaling \$15,702,700 during the evaluation period. Four of the seven loans were for affordable housing, specifically renovation projects on apartment complexes that supported rental amounts for low- and

moderate-individuals. The other three loans were for revitalization/stabilization, including a \$3.9 million loan to construct 39 townhomes in a low-income census tract. This phase of construction, when combined with prior phases, has revitalized this area by attracting new businesses to serve the increased number of residents, many of whom are university students.

In the Austin-Round Rock MSA AA, LNB originated 17 loans totaling \$46,612,437 during the evaluation period. Thirteen of the loans were for revitalization/stabilization, including a \$7.5 million loan to a start-up company in a FEMA-declared Disaster Area to convert up to 6 million damaged trees into a usable wood product. The other four loans are for affordable housing.

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

The level of qualified investments reflects an excellent responsiveness to CD needs of the AAs. During the evaluation period, LNB made 89 qualified investments, grants, and donations totaling \$7,174,833 within its AAs. This represents 10 percent of Tier 1 capital.

LNB's qualified investments in the Lubbock MSA AA included 43 items totaling \$1,249,009. Qualified investments in the College Station-Bryan MSA AA included 24 items totaling \$1,428,798, and qualified investments in the Austin-Round Rock MSA AA included 22 items totaling \$4,497,026. All qualified investments specifically benefited low- or moderate-income individuals or supported organizations whose major purpose is revitalizing areas within the AAs.

About \$7 million of the LNB's total was investments in qualified small business investment corporations (SBICs) and the purchase of FNMA and GNMA bonds targeting affordable housing. Specifically, these purchases assisted low- and moderate-income individuals and families with down payments and closing costs for eligible first-time homebuyers. The majority of the homes are located in low- or moderate-income census tracts. The majority of these investments directly benefited the Austin-Round Rock MSA AA as the cities of Lubbock and College Station do not participate in these programs and have more affordable housing options.

Significant donations included \$60,500 to the Federal Home Loan Bank of Dallas to benefit Habitat for Humanity of Austin, \$23,100 to benefit Habitat for Humanity of Bryan/College Station, and \$42,000 to qualifying programs at the United Way of Lubbock.

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

The level of CD services reflects an adequate responsiveness to CD needs in each of the three AAs. During the evaluation period, numerous bank employees provided multiple financial services to 24 different qualified CD organizations. The provision of CD services is heavily concentrated in the Lubbock MSA AA (18), consistent with the number of employees in this AA. CD services provided in the College Station-Bryan MSA AA (10) and the Austin-Round Rock MSA AA (3) are lower, but also consistent with the number of employees in these AAs.

LNB officers and employees provide technical assistance through participation on finance or audit committees of local organizations, which provide services to low- or moderate-income individuals in all AAs. Examples include:

Get Smart About Credit

LNB employees in the Lubbock MSA AA have volunteered as instructors for the “Get Smart About Credit” FDIC curriculum since 2010. The bank continues its partnership with the American Bankers Association Education Foundation. This allows employees to connect with K-12 students and young adults to help them develop a stronger understanding of the importance of savings and how to use credit responsibly. Since 2010, the curriculum has been taught to 19 high school economics classes totaling 477 students.

Coalition of Community Assistance Volunteers (CCAV)

LNB employees volunteered 1,043 hours during 2010-2013 preparing free income tax returns for low- and moderate-income individuals through the Volunteer Income Tax Assistance program. Volunteers are trained by CCAV and the IRS in order to prepare income tax returns according to IRS guidelines.

Retail services are reasonably accessible. LNB operates 10 full-service branches, a limited-service branch, and 11 ATMs (all of which are co-located at the branches). One branch and one ATM are located in a low-income census tract in the College Station-Bryan MSA; all other branches and ATMs are located in middle- and upper-income census tracts. Customers may also access their accounts through 24-hour telephone banking or online at [www.lubbocknational.com](http://www.lubbocknational.com) or [www.commercenb.com](http://www.commercenb.com). LNB’s Internet banking program offers electronic check deposit, funds transfer, balance check, and bill pay. The bank also offers a Visa check (debit) card that provides customers with additional access to their accounts at point of sale or ATM locations.

**Responsiveness to Community Development Needs**

LNB demonstrated excellent responsiveness to CD needs in all three AAs, particularly through using existing commercial lending expertise to originate CD loans that are responsive to AA revitalization/stabilization needs.

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

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

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