

PUBLIC DISCLOSURE

March 11, 2021

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

International Bank of Commerce
Certificate Number: 24961

908 North U.S. Highway 83
Zapata, Texas 78076

Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
Dallas Regional Office

1601 Bryan Street, Suite 1410
Dallas, Texas 75201

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

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INSTITUTION RATING

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

An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment areas, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

International Bank of Commerce's (IBC Zapata) satisfactory Lending Test record insufficiently lifted by the outstanding Community Development Test record supports the overall Community Reinvestment Act (CRA) rating.

The Lending Test is rated Satisfactory.

- The loan-to-deposit ratio (LTD) is reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and assessment area credit needs.
- A majority of loans and other lending-related activities are in the institution's assessment areas.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.
- The distribution of borrowers reflects, given the demographics of the assessment areas, excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The institution has taken appropriate action in response to substantiated complaints about its performance in meeting assessment area credit needs.

The Community Development Test is rated Outstanding.

The institution's community development performance demonstrates excellent responsiveness to community development needs in its assessment areas through community development (CD) loans, qualified investments (QIs), and CD services, as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's assessment areas. Excellent responsiveness to the community development needs and an excellent record regarding CD loans, without simply ignoring the other types of community development activities, primarily support this conclusion. The bank also demonstrated an adequate record regarding its QIs and an excellent record regarding its CD services.

DESCRIPTION OF INSTITUTION

IBC Zapata began operations in 1984 in Zapata, Texas. The bank received a Satisfactory rating at its previous September 11, 2017, Federal Deposit Insurance Corporation (FDIC) Performance Evaluation based on the Federal Financial Institutions Examination Council's (FFIEC) Intermediate Small Institution CRA Examination Procedures.

International Bancshares Corporation, Laredo, Texas, wholly owns IBC Subsidiary Corporation, Laredo, Texas. In turn, IBC Subsidiary Corporation wholly owns IBC Zapata as well as International Bank of Commerce, Laredo, Texas; International Bank of Commerce, Brownsville, Texas; International Bank of Commerce, Oklahoma City, Oklahoma; and Commerce Bank, Laredo, Texas. During the evaluation period, IBC Zapata operated from 10 full-service offices throughout its assessment areas in Texas. The bank has not opened or closed any offices, or participated in any merger or acquisition activity since the previous evaluation.

With a primary business focus on commercial loans, IBC Zapata's loan products include commercial, residential, construction, agricultural, and consumer loans. The bank also offers a variety of deposit services including consumer and commercial checking and savings accounts, debit and gift cards, and merchant processing for commercial customers. The Community Development Services describes the availability of alternative banking services.

Assets totaled approximately \$442.1 million as of December 31, 2020, and included total loans of \$145.1 million, securities of \$197.4 million, and total deposits of \$351.8 million. As seen in the following table, the mix of outstanding loans reflects an inconsistent distribution to that shown for originated loans under the Scope of Evaluation. The typically larger dollar amount and longer maturities for residential loans generally account for their prominence in outstanding loans.

Loan Portfolio Distribution as of 12/31/2020		
Loan Category	\$(000s)	%
Construction, Land Development, and Other Land Loans	2,896	2.0
Secured by Farmland	11,961	8.3
Secured by 1-4 Family Residential Properties	71,387	49.2
Secured by Multifamily (5 or more) Residential Properties	729	0.5
Secured by Nonfarm Nonresidential Properties	23,126	15.9
Total Real Estate Loans	110,099	75.9
Commercial and Industrial Loans	24,523	16.9
Agricultural Production and Other Loans to Farmers	4,381	3.0
Consumer Loans	5,605	3.9
Obligations of State and Political Subdivisions in the U.S.	0	0.0
Other Loans	487	0.3
Lease Financing Receivable (net of unearned income)	0	0.0
Less: Unearned Income	0	0.0
Total Loans	145,095	100.0
<i>Source: Reports of Condition and Income</i>		

Examiners did not identify any financial, legal, or other impediments that would affect the bank’s ability to meet assessment area credit needs.

DESCRIPTION OF ASSESSMENT AREAS

IBC Zapata designated two noncontiguous, nonmetropolitan assessment areas, the Bee Non-Metropolitan Statistical Area (Non-MSA) Assessment Area (Bee Non-MSA AA) and the Zapata Non-MSA Assessment Area (Zapata Non-MSA AA). The Bee Non-MSA AA encompasses all of Bee County, which consists of seven census tracts. The Zapata Non-MSA AA consists of contiguous Duval, Jim Hogg, Jim Wells, Kleberg, Starr, and Zapata Counties encompassing 36 census tracts. As allowed for in outstanding guidance, examiners combined these areas, totaling 43 census tracts, for presentation purposes into one Non-MSA assessment area (Non-MSA AA). The combined Non-MSA AA conforms to CRA regulatory requirements. Examiners used full-scope procedures for this area. The following table denotes the location of the bank’s offices.

Office Locations				
County/City/Office	Office Type	Census Tract Number	Census Tract Income Level	Office Opened or Closed Since Last Evaluation
Bee County: Beeville – E Houston St	Branch	9505.00	Moderate	No
Duval County: Freer – S Norton Ave	Branch	9502.00	Middle	No
Jim Hogg County: Hebbronville – N Smith St	Branch	9504.00	Middle	No
Jim Wells County: Alice – E Main St	Branch	9503.00	Upper	No
Kleberg County: Kingsville – E General Cavazos Blvd	Branch	0205.00	Middle	No
Starr County: Rio Grande City – 4015 E Hwy 83	Branch	9505.00	Moderate	No
Rio Grande City – 4031 E Hwy 83	Branch	9505.00	Moderate	No
Rio Grande City – 4534 E Hwy 83	Branch	9506.00	Moderate	No
Roma – Hwy 83 at Portazela	Branch	9507.02	Low	No
Zapata County: Zapata – N Hwy 83	Main	9503.02	Moderate	No
<i>Source: Bank Data; 2015 American Community Survey (ACS) Data</i>				

Economic and Demographic Data

The Non-MSA AA’s 43 census tracts consist of 7 low-, 17 moderate-, 15 middle-, and 3 upper-income tracts, with 1 undesignated income tract based on the 2015 ACS data derived from census data.

IBC Zapata’s main office is located on the Mexico border approximately 50 miles south of Laredo, Texas. As a result, the bank attracts a considerable volume of foreign Mexican National deposits, which may provide a source of loan funding typically well in excess of any loan demand from these individuals. The nature of existing tax laws and the needs of the depositors themselves may make these deposits a less reliable source of loan funding.

The largest industries in the Non-MSA AA, by percentage of businesses, consist of services at 36.8 percent, retail trade at 17.5 percent, and non-classifiable establishments at 11.8 percent. Major employers in the area include the Naval Air Station in Kleberg County, Starr Produce in Starr County, Zapata Independent School District in Zapata County, and other neighboring school and county governments in the Non-MSA AA. Other major employers include oil and gas companies such as Weatherford, Halliburton and Schlumberger along with other related chemical companies; however, with the current decline of oil and gas exploration, such companies continue to experience declining employment.

The below table provides a listing of the Texas Labor Market unemployment rates for each county in the Non-MSA AA as compared to the Texas and the national averages as of December 31, 2019. Additionally, the table reflects significant changes in 2020 due to the national state of emergency related to the COVID-19 pandemic.

Unemployment Rates		
Area	December 2019	December 2020
	%	%
Bee County	4.3	10.2
Duval County	4.9	12.6
Jim Hogg County	4.4	11.3
Jim Wells County	5.1	12.6
Kleberg County	4.1	8.3
Starr County	12.4	18.5
Zapata County	5.8	13.6
State of Texas	3.3	7.1
National Average	3.4	6.5

Source: Texas Workforce Commission

The following table provides select demographic and economic data for the Non-MSA AA.

Demographic Information of the Non-MSA AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	43	16.3	39.5	34.9	7.0	2.3
Population by Geography	199,921	15.5	38.9	35.3	10.3	0.0
Housing Units by Geography	73,717	13.0	40.4	39.6	7.1	0.0
Owner-Occupied Units by Geography	40,244	14.1	38.3	39.7	7.9	0.0
Occupied Rental Units by Geography	19,540	11.3	40.5	41.4	6.8	0.0
Vacant Units by Geography	13,933	12.2	46.2	36.6	5.0	0.0
Businesses by Geography	8,009	8.4	35.2	45.8	10.6	0.0
Farms by Geography	289	4.2	22.8	54.3	18.7	0.0
Family Distribution by Income Level	44,638	33.2	17.8	16.1	32.9	0.0
Household Distribution by Income Level	59,784	32.3	15.7	15.3	36.7	0.0
Median Family Income Non-MSAs - TX		\$52,198	Median Housing Value Median Gross Rent Families Below Poverty Level			\$69,673 \$676 24.8%
<i>Source: 2015 ACS Data; 2020 D&B Data Due to rounding, totals may not equal 100.0 (* The NA category consists of geographies that have not been assigned an income classification.</i>						

Competition

The assessment area contains a somewhat competitive market of competition from other chartered banks based on its population, with 47 offices from 21 institutions serving approximately 4,254 people. IBC Zapata ranks 1st in deposit market share by capturing 14.2 percent of the area's deposits based on the June 30, 2020, FDIC Deposit Market Share Report. Additionally, credit unions and finance companies also operate in the area, heightening the competition level. Overall, the competition level allows for lending opportunities.

Community Contact

Examiners contacted a community member knowledgeable of the area's economic, demographic, and business environments to help assess the current economic conditions, community credit needs, and potential opportunities for bank involvement. The contact indicated that the area has started to maintain a stable economy spurred by new retail stores such as Dollar General and Family Dollar; however, there is still a decline in the oil and gas industry, which has an impact on the area. Nonetheless, according to the contact, diverse businesses support the area's economy, most of which continue to positively contribute to its needs and growth. The contact indicated that area financial institutions do a good job serving community banking and credit needs.

Credit and Community Development Needs and Opportunities

Consistent with other non-metropolitan areas, the Non-MSA AA created varied loan demand for all types of loans. The general overall economy serves to expand the area's credit needs and opportunities and the overall financial competition does not restrict available opportunities.

Considering information obtained from the community contact, bank management, as well as demographic and economic information, examiners determined that the area’s primary credit needs include small business lending along with residential, agricultural, construction, and consumer loans.

With respect to the area’s community development needs, examiners considered that nearly one-fourth of the area’s families reported incomes below the poverty level and that just over half, or 51.0 percent, of the area’s families report either low or moderate incomes. These characteristics typically suggest a higher need for activities that aid in providing community services targeted to low- and moderate-income individuals. Other community development needs exist regarding activities that revitalize or stabilize qualifying geographies, as suggested by the 55.8 percent of the area’s census tracts receiving low- or moderate-income designations, and regarding affordable housing for low- and moderate-income individuals.

SCOPE OF EVALUATION

General Information

This evaluation covers the period from September 11, 2017, to March 11, 2021, the date of the previous evaluation to this evaluation’s date. To assess performance, examiners applied the FFIEC Intermediate Small Institution CRA Examination Procedures, which include the Lending Test and Community Development Test. The appendix lists the applicable tests’ criteria. In addition, this evaluation does not consider any affiliate lending activity.

Activities Reviewed

Lending Test procedures require examiners to determine the bank’s major product lines for review. As an initial matter, examiners may select from among the same loan categories used for CRA Large Bank evaluations: home mortgage, small business, small farm, and consumer loans. The following table shows lending activity for 2020, which reflects a generally consistent pattern with the bank’s lending emphasis since the last evaluation.

Loans Originated or Purchased				
Loan Category	\$(000s)	%	#	%
Construction and Land Development	3,390	6.3	22	1.8
Secured by Farmland	5,687	10.5	21	1.7
Secured by 1-4 Family Residential Properties	1,220	2.3	14	1.1
Multi-Family (5 or more) Residential Properties	193	0.3	2	0.2
Commercial Real Estate Loans	5,453	10.1	26	2.1
Commercial and Industrial Loans	27,592	51.0	533	42.6
Agricultural Loans	4,814	8.9	65	5.2
Consumer Loans	5,715	10.6	567	45.3
Other Loans	0	0.0	0	0.0
Total Loans	54,064	100.0	1,250	100.0
<i>Source: Bank Data (2020)</i>				

Considering the number and dollar volume of loans originated, as well as management's stated business strategy, examiners determined that the bank's major product line consists of commercial loans at 61.1 percent of total loans by dollar volume during 2020. Since none of the other typically considered loan categories represent a major product line and thus would not materially affect any conclusions or ratings, including mortgage lending at 2.6 percent by dollar volume, consumer loans at 10.6 percent, and farm lending at 19.4 percent, this evaluation does not discuss them.

Consequently, this evaluation presents the universe of 625 small business loans totaling approximately \$20.0 million originated in 2018, the universe of 489 small business loans totaling approximately \$17.9 million originated in 2019, and the universe of 648 small business loans totaling approximately \$26.0 million originated in 2020 when reviewing the bank's assessment area concentration performance. The evaluation presents only the 2020 data regarding the bank's geographic and borrower profile distribution performances since no trends exist between the different years' data that materially affect applicable conclusions or ratings.

The bank chose to collect, but not report, its small business loan data, which examiners validated and deemed accurate for CRA analysis purposes. Since the bank did not report the data, tabled data does not include aggregate loan data for comparison purposes. D&B data for 2020 provides a standard of comparison for the small business loans evaluated. Since this evaluation only discusses small business loans, this loan category received all of the weighting when arriving at overall conclusions.

For the Community Development Test, bank management provided data on CD loans, QIs, and CD services since the prior CRA evaluation dated September 11, 2017.

CONCLUSIONS ON PERFORMANCE CRITERIA

LENDING TEST

IBC Zapata demonstrated a satisfactory record regarding the Lending Test. Excellent borrower profile performance hampered by reasonable geographic distribution performance primarily supports this conclusion. Additionally, the bank demonstrated a reasonable LTD ratio, originated a majority of loans in the bank's Non-MSA AA, and took appropriate action on a CRA-related complaint.

Loan-to-Deposit Ratio

The LTD ratio is reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and assessment area credit needs. The bank's LTD ratio averaged 49.8 percent over the past 14 calendar quarters from September 30, 2017, to December 31, 2020, higher than the 34.1 percent average ratio reported at the previous evaluation. The ratio ranged from a low of 40.6 percent as of December 31, 2020, to a high of 56.5 percent as of June 30, 2019, with a downward trend noted. Although still reflective of reasonable performance, examiners noted that IBC Zapata's average, net LTD ratio was somewhat affected by the bank's larger volume of foreign deposits and public funds. Further, and as noted previously, the Non-MSA AA suffered from more limited loan demand during the period of review, in part due to continued loss and declining oil and gas exploration as well higher unemployment and population loss.

Examiners identified and listed in the following table five somewhat comparable banks. Three in relation to the bank’s asset size and lending focus, ranged in an average, net LTD from 17.9 percent to 74.3 percent. The two smaller asset sized but local area banks ranged in an average, net LTD from 45.7 percent to 56.4 percent, similar to IBC Zapata’s ratio. Kleberg Bank reported the highest listed ratio; however, examiners noted that such institution operated near a larger population base with relatively more lending opportunities.

LTD Ratio Comparison		
Bank	Total Assets as of 12/31/2020 (\$000s)	Average Net LTD Ratio (%)
International Bank of Commerce, Zapata, Texas	442,135	49.8
Citizens State Bank, Roma, Texas	90,474	56.4
Kleberg Bank, Kingsville, Texas	643,429	74.3
SouthTrust Bank, NA, George West, Texas	473,353	61.0
The Karnes County National Bank, Karnes City, Texas	407,867	17.9
Zapata National Bank, Zapata, Texas	90,170	45.7

Source: Reports of Condition and Income (09/30/2017 – 12/31/2020)

Assessment Area Concentration

A majority of loans and other lending-related activities are in the institution’s assessment areas. A majority of small business loans originated inside the assessment areas supports this conclusion. As reflected in the below table, the bank originated a majority of its small business loans, by number and dollar volume, inside its assessment areas.

Lending Inside and Outside of the Assessment Areas										
Loan Category	Number of Loans				Total #	Dollar Amount of Loans \$(000s)				
	Inside		Outside			Inside		Outside		Total \$(000s)
	#	%	#	%		\$	%	\$	%	
Small Business										
2018	545	87.2	80	12.8	625	14,938	74.8	5,023	25.2	19,961
2019	421	86.1	68	13.9	489	14,180	79.1	3,752	20.9	17,932
2020	549	84.7	99	15.3	648	19,270	74.2	6,687	25.8	25,957
Total	1,515	86.0	247	14.0	1,762	48,388	75.8	15,462	24.2	63,850

Source: Bank Data (2018, 2019, and 2020)

Geographic Distribution

The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas. Reasonable performance regarding small business loans in the Non-MSA AA supports this conclusion.

Small Business Loans

The geographic distribution of small business loans reflects reasonable performance. Reasonable performances in low- and moderate-income census tracts support this conclusion. Examiners focused on the bank's percentage of loans, by number, granted in low- and moderate-income geographies relative to the percent of businesses.

The following table shows that within low-income census tracts, the bank's lending percentage lands slightly above, by 1.8 percentage points, the percentage of businesses, reflecting reasonable performance. The table further shows that within moderate-income geographies, the bank's level of lending rises 9.4 percentage points above the D&B level, also reflecting reasonable performance.

Geographic Distribution of Small Business Loans Non-MSA AA					
Tract Income Level	% of Businesses	#	%	\$(000s)	%
Low	8.4	56	10.2	1,825	9.5
Moderate	35.2	245	44.6	7,513	39.0
Middle	45.8	239	43.5	9,692	50.3
Upper	10.6	9	1.7	240	1.2
Not Available	0.0	0	0.0	0	0.0
Totals	100.0	549	100.0	19,270	100.0

Source: 2020 D&B Data: Bank Data (2020)

Borrower Profile

The distribution of borrowers reflects, given the demographics of the assessment areas, excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. Excellent performance regarding small business loans in the Non-MSA AA supports this conclusion.

Small Business Loans

The distribution of small business loans based on the borrowers' profiles reflects excellent performance. An excellent record of lending to businesses with gross annual revenues of \$1 million or less primarily supports this conclusion. Examiners focused on the bank's overall level of lending to businesses with gross annual revenues of \$1 million or less when arriving at this conclusion. The companies' gross annual revenues define the borrowers' profiles for this review.

The following table shows that the bank originated approximately nine out of every ten loans to businesses with gross annual revenues of \$1 million or less, reflecting an excellent level. Examiners noted that D&B data reflected 78.1 percent of businesses reporting gross annual revenues of \$1 million or less. In addition, the bank participated in the Small Business Administration's (SBA) Paycheck Protection Program (PPP). The bank originated 179 PPP loans totaling just over \$8.1 million, considered small business loans with loan amounts of \$1 million or less during the review period. The bank originated 77 of these PPP loans totaling \$4.0 million in low- and moderate-income geographies. Such activity further demonstrates the bank's willingness to meet the credit needs of businesses of varying sizes, including small businesses.

Distribution of Small Business Loans by Gross Annual Revenue Category					
Non-MSA AA					
Gross Revenue Level	% of Businesses	#	%	\$(000s)	%
≤ \$1,000,000	78.1	507	92.3	12,743	66.1
> \$1,000,000	4.3	42	7.7	6,527	33.9
Revenue Not Available	17.6	0	0.0	0	0.0
Total	100.0	549	100.0	19,270	100.0
<i>Source: 2020 D&B Data; Bank Data (2020)</i>					

Response to Complaints

The institution has taken appropriate action in response to a substantiated complaint about an affiliate’s performance in meeting assessment area credit needs that it received since the last evaluation.

COMMUNITY DEVELOPMENT TEST

IBC Zapata demonstrated an outstanding record regarding the Community Development Test. The institution’s community development performance demonstrates excellent responsiveness to community development needs in its assessment areas through CD loans, QIs, and CD services, as appropriate, considering the institution’s capacity and the need and availability of such opportunities for community development in the institution’s assessment areas. Excellent responsiveness to the community development needs and an excellent record regarding CD loans, without simply ignoring the other types of community development activities, primarily support this conclusion. The bank also demonstrated an adequate record regarding its QIs and an excellent record regarding its CD services. Certain activities reflect a leadership role and a heightened level of effort by IBC Zapata along with its affiliated institutions in initiating or developing those activities.

Community Development Loans

The bank exhibited an excellent record regarding its CD loans. An excellent level regarding the dollar volume of CD loans primarily supports this conclusion. Examiners evaluated the number and dollar volume relative to the considerations noted for the Community Development Test when arriving at this conclusion.

IBC Zapata originated 13 CD loans totaling approximately \$22.5 million during the evaluation period. This level of activity represents 5.2 percent of average total assets of \$431.5 million and 14.4 percent of average net loans of \$156.7 million since the prior CRA evaluation. These levels increased from the 1.5 percent of average total assets and 6.5 percent of average net loans reported at the previous evaluation. The current levels reflect excellent performance relative to the considerations noted for the Community Development Test.

The CD loans proved responsive to the areas’ needs given that they primarily address revitalization or stabilization needs. As seen in the following table, 85.2 percent by dollar volume address activities that revitalize or stabilize low- and moderate-income geographies, which demonstrates the

bank’s responsiveness to an identified community development need. In addition, the bank worked with the SBA to make loans through programs under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The bank also provided loan modifications to customers experiencing financial hardships, demonstrating responsiveness to community needs. The following table illustrates the bank’s community development lending activity by year and purpose, which all benefited the Non-MSA AA.

Community Development Lending										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2017	0	0	0	0	0	0	1	1,300	1	1,300
2018	0	0	0	0	0	0	1	1,797	1	1,797
2019	0	0	0	0	0	0	2	4,183	2	4,183
2020	0	0	0	0	3	3,327	4	8,247	7	11,574
YTD 2021	0	0	0	0	0	0	2	3,648	2	3,648
Total	0	0	0	0	3	3,327	10	19,175	13	22,502

Source: Bank Data

The following points highlight community development lending in the Non-MSA AA.

- **Revitalize or Stabilize** – In 2020, the bank renewed and extended a loan totaling approximately \$3.4 million to finance the renovation and expansion of a shopping center and to construct a grocery and new retail hardware store in a moderate-income census tract in the Non-MSA AA. The activity revitalizes or stabilizes a qualifying geography as the center employs and serves local residents, and also attracts new, or retains existing, businesses to the area.
- **Revitalize or Stabilize** – In 2020, the bank made a loan in the amount of \$2.1 million in a moderate-income census tract to finance ranch property. The loan allowed the owner to make improvements for high fencing, cattle and horse operations, as well as lease the property for various types of hunting. The ranch also employs a number of low- and moderate-income individuals to operate the cattle operation and provide drivers and guides for various hunts. Therefore, the activity revitalizes or stabilizes a qualifying geography by attracting new, or retaining existing, businesses and residents.

Qualified Investments

The bank displayed an adequate record regarding its QIs. An adequate level regarding the dollar volume of QIs primarily supports this conclusion. Examiners considered the number and dollar volume of QIs relative to the considerations noted for the Community Development Test when arriving at this conclusion.

The bank made use of 165 QIs totaling approximately \$3.6 million. The total dollar volume equates to 0.8 percent of average total assets of \$431.5 million and 1.7 percent of average securities of \$211.1 million, since the prior evaluation. These levels increased from the 62 QIs totaling

approximately \$3.4 million, equating to 0.7 percent of average total assets and 1.0 percent of average securities, recorded at the prior evaluation. The current levels reflect adequate performance relative to the considerations noted for the Community Development Test.

The following table indicates that by dollar volume, 86.0 percent of the QIs supported affordable housing activities, with a majority related to a CRA affordable housing investment. These efforts demonstrate the bank’s adequate responsiveness to a community development need. The following table illustrates the bank’s QIs by year and purpose, which benefited the Non-MSA AA.

Qualified Investments										
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
Prior Period	0	0	0	0	0	0	0	0	0	0
2017	0	0	0	0	0	0	0	0	0	0
2018	1	3,000	0	0	0	0	0	0	1	3,000
2019	0	0	0	0	0	0	0	0	0	0
2020	1	115	0	0	0	0	0	0	1	115
YTD 2021	0	0	0	0	0	0	0	0	0	0
Subtotal	2	3,115	0	0	0	0	0	0	2	3,115
Qualified Grants & Donations	0	0	158	487	4	5	1	16	163	508
Total	2	3,115	158	487	4	5	1	16	165	3,623

Source: Bank Data

The following provides examples of the QIs in the Non-MSA AA.

- **Affordable Housing** – The bank invested \$3.0 million in a Freddie Mac mortgage pool that is a CRA qualified investment fund that serves the general area. These investments assist low- and moderate-income individuals.
- **Affordable Housing** – The bank invested \$115,000 in a Community Development Financial Institution in the Rio Grande Valley. The organization’s mission is to provide financial products and development services to Rio Grande Valley low- and moderate-income residents, particularly in the area of affordable housing through provision of down payment assistance products.
- **Community Services** – The bank made 158 donations totaling \$487,000 to various organizations or projects in the bank’s Non-MSA AA that provide a variety of community services, including educational, health, and social services, targeted to low- and moderate-income individuals.

Community Development Services

The bank established an excellent record regarding its CD services. Excellent performances regarding the types of services and availability of services support this conclusion. Examiners evaluated the types and availability of services relative to the considerations noted for the Community Development Test when arriving at this conclusion.

Types of Services

The bank exhibited excellent performance regarding the types of services that primarily benefit low- and moderate-income individuals. An excellent extent, or number, of CD services primarily supports this conclusion.

The following table shows that the bank provided 574 CD services since the prior evaluation. This number equates to an average of 17.2 CD services, per office, per year, since the prior evaluation. This level increased from the 458 CD services averaging 15.7 CD services, per office, per year, recorded at the prior evaluation. The services all involve bank personnel's use of their technical expertise to benefit organizations or projects with a primary purpose of community development, as defined by the CRA regulation. The current level reflects excellent performance.

The table also shows that 98.8 percent of the services benefited community service organizations that serve low- and moderate-income individuals, which demonstrates the bank's responsiveness to an identified community development need. Additionally, certain activities reflect a leadership role and a heightened level of effort by IBC Zapata along with its affiliated institutions in initiating or developing those activities. As noted below, these characteristics apply to the development of the We Do More Rx Card that provides discounts on prescription drugs and involved coordinating with the nationally recognized Pharmacy Benefit Manager that has over 54,000 participating pharmacies.

The noted considered qualitative aspects also apply to the bank's sponsorship of the Minitropolis[®] program. The bank currently sponsors the program to 1 of the area's elementary schools reaching 527 students. The program creates a fully functioning, real-life community run by the students while educating them on, among other things, financial skills necessary to be successful and responsible citizens. The considered qualitative aspects further apply to the organization's creation of the Money Buzz program. This program, designed for children ages 5 to 9, provides a child-friendly lesson on personal finance.

The following table illustrates the bank's CD services by year and purpose, which benefited the Non-MSA AA.

Community Development Services					
Activity Year	Affordable Housing	Community Services	Economic Development	Revitalize or Stabilize	Totals
	#	#	#	#	#
2017	0	95	0	0	95
2018	0	196	0	0	196
2019	0	216	3	0	219
2020	0	60	4	0	64
YTD 2021	0	0	0	0	0
Total	0	567	7	0	574
<i>Source: Bank Data</i>					

The following provides examples of CD services in the Non-MSA AA.

- **Community Services** – In a leadership role, IBC Zapata and its affiliated institutions developed the We Do More Rx Card. The card, targeted to low- and moderate-income bank customers, provides discounts on all Food and Drug Administration-approved prescription drugs that amount to savings on average of 15.0 percent of the cash price for brand name drugs and 40.0 percent off generic drugs. The activity provides community services by addressing health matters targeted to low- and moderate-income individuals.
- **Community Services** – Numerous bank officers served on the boards and/or committees of a number of Zapata County organizations throughout the evaluation period. These organizations help to serve low- to moderate-income individuals throughout the Non-MSA AA. Additionally, several employees provided financial education to various local high school, middle school, and elementary school students targeted to low- and moderate-income individuals. The bank employees used the Money Smart, Get Smart About Credit, and the bank’s own version of Money Smart called Money Buzz, to teach the basics of handling money and finances, including how to create positive relationships with financial institutions.

Availability of Services

The bank demonstrated excellent performance regarding the availability of its services to low- or moderate-income individuals and geographies. An excellent branch distribution along with excellent alternative delivery systems support this conclusion.

The following table shows that in low-income census tracts, the percentage of the bank’s full-service offices lands below, by 5.5 percentage points, the population percentage, reflective of adequate performance. The table further shows that in moderate-income geographies, the percentage of the bank’s full-service offices rises above, by 11.1 percentage points, the population percentage, also typically reflective of adequate performance. However, considering changes in census tract income designations since the prior examination and the continued operation of two branches previously located in moderate-income geographies, the branch distribution reflects excellent performance.

Branch and ATM Distribution by Geography Income Level								
Tract Income Level	Census Tracts		Population		Branches		ATMs	
	#	%	#	%	#	%	#	%
Low	7	16.3	30,988	15.5	1	10.0	2	10.5
Moderate	17	39.5	77,769	38.9	5	50.0	8	42.1
Middle	15	34.9	70,572	35.3	3	30.0	7	36.9
Upper	3	7.0	20,592	10.3	1	10.0	2	10.5
NA	1	2.3	0	0.0	0	0	0	0
Total	43	100.0	199,921	100.0	10	100.0	19	100.0

Source: 2015 ACS Data; Bank Data

Besides its full-service office locations, the bank provides excellent alternative delivery systems that help avail its services to low- and moderate-income individuals or geographies. IBC Zapata has 10 branch locations, including two that are opened seven days a week with extended hours at other branches until 8:00 p.m. Further, as noted in the table above, IBC Zapata operates 10 automated teller machines (ATMs) in low- and moderate-income areas. Due to IBC Zapata's affiliation with its holding company, its customers also receive free access to all branch locations and ATMs that make up the International Bancshares Corporation network. As of March 11, 2021, this network includes 185 branch locations and 279 ATMs.

In addition to its ATMs, the bank provides other alternative delivery systems consisting of online banking and bill pay, IBC mobile, a mobile banking product that provides many of these same services from any mobile device, and IBC Voice, which provides free 24-hour customer access to accounts via a local telephone number. Additionally, the bank offers IBC Link, which is a delivery system that addresses various needs of commercial customers, including small businesses, such as transferring funds between accounts, reconciling account balances, and performing wire transfers.

DISCRIMINATORY OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The bank's compliance with the laws relating to discrimination and other illegal credit practices was reviewed, including the Fair Housing Act and the Equal Credit Opportunity Act. Examiners did not identify any discriminatory or other illegal credit practices.

APPENDICES

INTERMEDIATE SMALL BANK PERFORMANCE CRITERIA

Lending Test

The Lending Test evaluates the bank's record of helping to meet the credit needs of its assessment area(s) by considering the following criteria:

- 1) The bank's loan-to-deposit ratio, adjusted for seasonal variation, and, as appropriate, other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments;
- 2) The percentage of loans, and as appropriate, other lending-related activities located in the bank's assessment area(s);
- 3) The geographic distribution of the bank's loans;
- 4) The bank's record of lending to and, as appropriate, engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; and
- 5) The bank's record of taking action, if warranted, in response to written complaints about its performance in helping to meet credit needs in its assessment area(s).

Community Development Test

The Community Development Test considers the following criteria:

- 1) The number and amount of community development loans;
- 2) The number and amount of qualified investments;
- 3) The extent to which the bank provides community development services; and
- 4) The bank's responsiveness through such activities to community development lending, investment, and service needs.

GLOSSARY

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

American Community Survey (ACS): A nationwide United States Census survey that produces demographic, social, housing, and economic estimates in the form of five year estimates based on population thresholds.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area: A geographic area delineated by the bank under the requirements of the Community Reinvestment Act.

Census Tract: A small, relatively permanent statistical subdivision of a county or equivalent entity. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries generally follow visible and identifiable features, but they may follow nonvisible legal boundaries in some instances. State and county boundaries always are census tract boundaries.

Combined Statistical Area (CSA): A combination of several adjacent metropolitan statistical areas or micropolitan statistical areas or a mix of the two, which are linked by economic ties.

Community Development: For loans, investments, and services to qualify as community development activities, their primary purpose must:

- (1) Support affordable housing for low- and moderate-income individuals;
- (2) Target community services toward low- and moderate-income individuals;
- (3) Promote economic development by financing small businesses or farms; or
- (4) Provide activities that revitalize or stabilize low- and moderate-income geographies, designated disaster areas, or distressed or underserved nonmetropolitan middle-income geographies.

Community Development Corporation (CDC): A CDC allows banks and holding companies to make equity type of investments in community development projects. Institution CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community. Institution CDCs are also tailored to their financial and marketing needs. A CDC may purchase, own, rehabilitate, construct, manage, and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization.

Community Development Financial Institutions (CDFIs): CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, micro enterprise funds, and community development venture capital funds.

A certified CDFI must meet eligibility requirements. These requirements include the following:

- Having a primary mission of promoting community development;
- Serving an investment area or target population;
- Providing development services;
- Maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means;
- Not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

Community Development Loan: A loan that:

- (1) Has as its primary purpose community development; and
- (2) Except in the case of a wholesale or limited purpose institution:
 - (i) Has not been reported or collected by the institution or an affiliate for consideration in the institution's assessment area as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan (as described in Appendix A to Part 203 of this title); and
 - (ii) Benefits the institution's assessment area(s) or a broader statewide or regional area including the institution's assessment area(s).

Community Development Service: A service that:

- (1) Has as its primary purpose community development;
- (2) Is related to the provision of financial services; and
- (3) Has not been considered in the evaluation of the institution's retail banking services under § 345.24(d).

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.

Core Based Statistical Area (CBSA): The county or counties or equivalent entities associated with at least one core (urbanized area or urban cluster) of at least 10,000 population, plus adjacent counties having a high degree of social and economic integration with the core as measured through commuting ties with the counties associated with the core. Metropolitan and Micropolitan Statistical Areas are the two categories of CBSAs.

Distressed Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as distressed if it is in a county that meets one or more of the following triggers:

- (1) An unemployment rate of at least 1.5 times the national average;
- (2) A poverty rate of 20 percent or more; or
- (3) A population loss of 10 percent or more between the previous and most recent decennial census or a net migration loss of 5 percent or more over the 5-year period preceding the most recent census.

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. Other family 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).

FFIEC-Estimated Income Data: The Federal Financial Institutions Examination Council (FFIEC) issues annual estimates which update median family income from the metropolitan and nonmetropolitan areas. The FFIEC uses American Community Survey data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Full-Scope Review: A full-scope review is accomplished when examiners complete all applicable interagency examination procedures for an assessment area. Performance under applicable tests is analyzed considering performance context, quantitative factors (e.g. geographic distribution, borrower profile, 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 applicants; the amount of loan requested; and the disposition of the application (approved, denied, and withdrawn).

Home Mortgage Loans: Includes closed-end mortgage loans or open-end line of credits as defined in the HMDA regulation that are not an excluded transaction per the HMDA regulation.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Limited-Scope Review: A limited scope review is accomplished when examiners do not complete all applicable interagency examination procedures for an assessment area.

Performance under applicable tests is often analyzed using only quantitative factors (e.g, geographic distribution, borrower profile, 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.

Low Income Housing Tax Credit: The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended. It is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department distributes low-income housing tax credits to housing credit agencies through the Internal Revenue Service. The housing agencies allocate tax credits on a competitive basis.

Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits. Or, they may sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains throughout the compliance period, usually 30 years.

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

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

Metropolitan Division (MD): A county or group of counties within a CBSA that contain(s) an urbanized area with a population of at least 2.5 million. A MD is one or more main/secondary counties representing an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area (MSA): CBSA associated with at least one urbanized area having a population of at least 50,000. The MSA comprises the central county or counties or equivalent entities containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties 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 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 and less than 80 percent in the case of a geography.

Multi-family: Refers to a residential structure that contains five or more units.

Nonmetropolitan Area (also known as **non-MSA**): All areas outside of metropolitan areas. The definition of nonmetropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies. For example, there is generally urban and rural territory within metropolitan and nonmetropolitan areas.

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 lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

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

Rural Area: Territories, populations, and housing units that are not classified as urban.

Small Business Investment Company (SBIC): SBICs are privately-owned investment companies which are licensed and regulated by the Small Business Administration (SBA). SBICs provide long-term loans and/or venture capital to small firms. Because money for venture or risk investments is difficult for small firms to obtain, SBA provides assistance to SBICs to stimulate and supplement the flow of private equity and long-term loan funds to small companies. Venture capitalists participate in the SBIC program to supplement their own private capital with funds borrowed at favorable rates through SBA's guarantee of SBIC debentures. These SBIC debentures are then sold to private investors. An SBIC's success is linked to the growth and profitability of the companies that it finances. Therefore, some SBICs primarily assist businesses with significant growth potential, such as new firms in innovative industries. SBICs finance small firms by providing straight loans and/or equity-type investments. This kind of financing gives them partial ownership of those businesses and the possibility of sharing in the companies' profits as they grow and prosper.

Small Business Loan: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small Farm Loan: 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, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

Underserved Middle-Income Nonmetropolitan Geographies: A nonmetropolitan middle-income geography will be designated as underserved if it meets criteria for population size, density, and dispersion indicating the area’s population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

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

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin).

“Urban” excludes the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.