



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**November 3, 2008**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Border Capital Bank, National Association  
Charter Number 18068

1801 South McColl Road  
McAllen, TX 78503-1520

Office of the Comptroller of the Currency

San Antonio South Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 78216-4133

**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.**

Border Capital Bank (BCB) reflects satisfactory lending performance in its efforts to meet credit needs of its community, including low- and moderate-income individuals and geographies in its assessment area (AA). Factors that support the overall rating include:

- The loan-to-deposit (LTD) is reasonable given the bank's size, financial condition, and AA credit needs.
- A substantial majority of loans are in the bank's AA.
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.

**SCOPE OF EXAMINATION**

The scope of our examination covered the time period from June 9, 2003, the date of the prior Performance Evaluation, to November 3, 2008, the date for the current review. BCB originates consumer and residential loans and is a HMDA Reporter. Additionally, commercial loans were identified as a primary loan product. Small farm loans represent a much smaller percentage of the loan portfolio and were not included in our sample.

**DESCRIPTION OF INSTITUTION**

BCB is a community bank located in McAllen, Texas. The bank was founded in 1984 and had total assets of \$187 million as of September 30, 2008. BCB is a wholly-owned subsidiary of Border Capital Group of Delaware, Inc., which is wholly owned by Border Capital Group, Inc., a Texas corporation. BCB has a main office, two full service branches, and a stand-alone motor bank. All four locations have an Automatic Teller Machine on the premises.

BCB is a full service bank whose primary purpose is to serve the city of McAllen and the adjacent communities located within Hidalgo County. The primary lending products include commercial real estate loans, commercial loans, small business loans, residential loans, and consumer loans. As of September 30, 2008, net loans represent 71 percent of total assets. A summary of the composition of the loan portfolio is as follows:

<b>Loan Portfolio Summary by Loan Product September 30, 2008</b>		
<b>Loan Category</b>	<b>Dollar Volume (000's)</b>	<b>% of Dollar Volume</b>
Commercial	108,283	81
Residential	16,715	13
Consumer	5,784	4
Agriculture/Farm & Other	2,992	2
<b>Total</b>	<b>133,774</b>	<b>100</b>

*Source: September 30, 2008 Consolidated Report of Condition*

There are no legal, financial, or other factors that impede BCB's ability to help meet the credit needs of the AA. The previous CRA Performance Evaluation, dated June 9, 2003, assigned a "Satisfactory" rating to the bank.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

BCB has identified Hidalgo County as the bank's AA. Hidalgo County is in the McAllen-Edinburg-Mission MSA. The AA includes the cities of Donna, Edinburg, Elsa, McAllen, Mercedes, Mission, Pharr, Progresso, and Weslaco. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. There are no low-income geographies in the AA. Hidalgo County consists of 80 census tracts, including 23 moderate-income tracts, 38 middle-income tracts, and 19 upper-income tracts.

The McAllen-Edinburg-Mission MSA continues to experience a population surge largely associated with significant cross-border trade opportunities. Major employers in the MSA include school districts, hospitals, services, trade, and the government. The city of McAllen is regarded as the retail center of south Texas. Agricultural production continues to decline as the area becomes more urbanized.

Competition is strong in the AA. BCB's main competitors in the AA are locally-based Lone Star National Bank, Inter National Bank, and First National Bank in Edinburg. Branches of Chase Manhattan Bank, International Bank of Commerce, Frost National Bank, and Compass Bank BBVA offer additional competition for both loan and deposit products. The following table depicts additional AA demographics.

<b>Demographics and Economic Characteristics of AA</b>	
Population	Hidalgo County AA
Number of Families	133,186
Number of Households	156,708
<b>Geographies</b>	
Number of Census Tracts/BNA	80
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	29%
% Middle-Income Census Tracts/BNA	47%
% Upper-Income Census Tracts/BNA	24%
<b>Median Family Income (MFI)</b>	
2000 Census MFI	\$25,988
2008 HUD-Adjusted MFI	\$27,700
<b>Economic Indicators</b>	
Unemployment Rate	4.33%
2008 Median Housing Value	\$49,916
% Owner Occupied Housing	59%
% Households Below Poverty Level	32%

Source: 2007 Business Geodemographic Data; 2000 U.S. Census Data.

To gather current information on the nature of the community and potential lending opportunities within the AA, we contacted a local community organization during this examination. This contact identified loans to small businesses and agricultural loans as credit needs in the community. The contact spoke favorably about local financial institutions and stated local financial institutions are meeting financial needs in the community.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

BCB demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products: commercial and residential loans. We selected a sample of loans to determine the extent of lending within the AA, the distribution of loans by borrower income level, and the geographic distribution of loans.

### **Loan-to-Deposit Ratio**

Border Capital Bank's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance. During our review period, March 2003 to June 2008, the bank's LTD ratio ranged from 77 percent to 103 percent, with a quarterly average ratio of 90 percent.

The average ratio for similarly situated institutions ranged from 54 to 86 percent, with a quarterly average of 71 percent. BCB had the highest quarterly average LTD ratio among the similarly situated banks, although two banks have comparable ratios of 86 and 85 percent.

<b>Institution</b>	<b>Total Assets (000)</b> <i>(As of 06/30/08)</i>	<b>Average Loan-to-Deposit Ratio</b>
<b>Border Capital Bank</b>	<b>\$184,092</b>	<b>90%</b>
Rio Bank	\$145,206	85%
Elsa State Bank & Trust CO	\$135,379	60%
Texas National Bank	\$73,854	86%
Bank of South Texas	\$75,957	54%

*Source: Quarterly Call Report Information.*

### Lending in Assessment Area

BCB made a substantial majority of its loans in the AA. We reviewed a sample of commercial and residential real estate loans that originated since the prior evaluation. The following table reflects the distribution of loans in our sample, by number and dollar volume, originated in and out of the AA. Ninety-six percent of the total number of loans sampled were made in the AA.

<b>Table 1 - Lending in Hidalgo County</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Real Estate	29	100%	0	0%	29	\$1,964	100%	\$0	0%	\$1,964
Business	24	92%	2	8%	26	\$6,855	78%	\$1,980	22%	\$8,835
<b>Totals</b>	<b>53</b>	<b>96%</b>	<b>2</b>	<b>4%</b>	<b>55</b>	<b>\$8,819</b>	<b>82%</b>	<b>\$1,980</b>	<b>18%</b>	<b>\$10,799</b>

*Source: Data reported under HMDA, sample of loans.*

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

The bank’s distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among businesses of different sizes. The bank’s record of residential lending to individuals of different incomes falls below the demographics of the AA. We place more weight on the bank’s record of commercial lending because it represents a much larger percentage of the bank’s loan portfolio.

We used the sample of commercial and residential loans made in the AA to determine the bank’s record of lending to borrowers of different incomes and businesses of different sizes. The following tables document our findings.

<b>Borrower Distribution of Loans to Businesses in Hidalgo County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	63	3	34	100%
% of Bank Loans in AA by #	63	37	N/A	100%
% of Bank Loans in AA by \$	39	61	N/A	100%

Source: Demographic data and Loan Sample.

The distribution of loans to small businesses reflects a reasonable penetration among businesses of different sizes. The bank’s record of lending to businesses with gross annual revenues less than \$1 million is in line with the percentage of businesses in the AA with similar revenues.

The distribution of residential real estate loans falls below the area demographics among borrowers of different incomes. The bank made only 4 percent of the loans sampled (where borrowers provided income information) in low-income census tracts, and no residential loans in moderate-income census tracts. This compares to 23% of AA families being low-income and, 17% of AA families designated moderate-income.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Hidalgo County</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Residential Real Estate	23%	4%	17%	0%	18%	12%	42%	84%

Source: Data reported under HMDA; U.S. Census data.

### Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AA. The following tables indicate the lending distribution of the sampled residential and commercial loans originated in the AA during the evaluation period. BCB’s penetration in moderate-income census tracts is comparable to the demographics of the area. The bank made 15% of the loans sampled in moderate-income tracts while 19% of AA businesses are located in those tracts.

<b>Geographic Distribution of Loans to Businesses in Hidalgo County</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
Commercial	NA	NA	19%	15%	42%	35%	39%	50%

Source: Loan sample; U.S. Census data.

BCB’s penetration in moderate-income tracts for residential loans is lower than area demographics. The bank made only 4 percent of the sampled residential loans in the moderate-income tracts compared to 28 percent of owner-occupied properties located in those tracts. The bank’s branches are not in the moderate-income locations, and there is also heavy competition in those areas.

<b>Geographic Distribution of Residential Real Estate Loans in Hidalgo County</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
Residential Real Estate	0%	0%	28%	4%	48%	41%	24%	55%

Source: Data reported under HMDA; U.S. Census data.

### Responses to Complaints

BCB has not received any consumer complaints related to its CRA performance during the evaluation period.

### Fair Lending or Other Illegal Credit Practices Review

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