

PUBLIC DISCLOSURE

March 22, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Inter National Bank
Charter Number 18480**

**1700 South Tenth Street
McAllen, Texas 78503**

Supervisory Office:

**Office of the Comptroller of the Currency
San Antonio South Field Office
9601 McAllister Freeway, Suite 200
San Antonio, Texas 78216-4605**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **Inter National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 22, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

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

Inter National Bank is responsive to the community credit needs including low- and moderate-income individuals and areas, and small businesses. This is evidenced by the following:

- ! The loan-to-deposit ratio is reasonable, given the bank's size, financial condition, and the credit needs of the assessment area (AA). The bank's loan-to-deposit ratio has averaged 58% for the past ten quarters and is comparable to similarly situated institutions in the AA.
- ! A majority of loans are made within the bank's AA which primarily encompasses those census tracts in and around McAllen, Mission, Pharr, and Edinburg, Texas.
- ! The distribution of loans granted to borrowers of different income levels and businesses of different sizes is reasonable.
- ! The geographic distribution of loans reflects satisfactory dispersion throughout the AA.
- ! There have been no consumer complaints regarding the bank's CRA performance during this evaluation period.

The following table indicates the performance level of Inter National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>INTER NATIONAL BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		U	
Lending in Assessment Area		U	
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		U	
Geographic Distribution of Loans		U	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Inter National Bank (INB) is a commercial bank with a main office and two branches in McAllen, Texas, two branches in Mission, and one branch in Edinburg. INB has opened four branches since the prior CRA evaluation and closed none. The main office and branch locations have automated teller machines (ATM) with three additional stand alone ATM's located in the assessment area. INB has total assets of \$352 million with \$167 million, or 47% of assets, in net loans as of December 31, 1998. A **Satisfactory** rating was received at INB's prior CRA evaluation dated August 14, 1996.

INB offers a wide range of deposit services and credit products. A breakdown of INB's loan portfolio is shown below:

Type of Loans	Amount \$ (000's)	Percentage
Commercial Real Estate	74,299	44%
1-4 Family Residential	37,299	22%
Commercial	30,915	19%
Consumer	19,068	11%
Agricultural	4,025	2%
Other	2,963	2%
Total	168,569	100%

There are no legal or other impediments limiting INB's ability to help meet the community's credit needs. INB is wholly owned by INB Delaware Corporation, a wholly owned subsidiary of INB Financial Corporation. There are no other subsidiaries or affiliates.

DESCRIPTION OF ASSESSMENT AREA

INB's assessment area (AA) consists of 37 contiguous census tracts (CT's) out of the 63 CT's in the Hidalgo County Metropolitan Statistical Area (MSA). The AA includes the cities of McAllen, Mission, Edinburg, and Pharr. The portion of the MSA not included in the AA is the area east of Pharr and Edinburg. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

According to the 1990 U.S. Census, the population of the AA is 239 thousand. The population of the AA represents about 62% of the MSA population. Annually, the Department of Housing and Urban Development updates the median family income (MFI). The 1998 MFI for the bank's AA was \$25,500. There are 56,126 families in the AA. The income level distribution of these families is as follows: 22.44% low-income; 15.65% moderate-income; 15.94% middle-income; and 45.97% upper-income. Thirty-three percent (33%) of the households in the AA have income levels below the poverty level. The AA does not have any low-income CTs. Nine (24%) are designated as moderate-income, 14 (38%) are middle-income, and 14 (38%) upper income CTs.

The economy is diversified with the wholesale/retail trade representing the largest employer, followed by government, services, manufacturing, transport, construction, finance, and agriculture. Hidalgo County borders Mexico and is across from the Mexican border city of Reynosa which has an estimated population of one million. Reynosa is home to more than 100 *Amaquiladoras*, which are production facilities that process or assemble components into finished products. Competition among financial institutions in INB's assessment area is intense with 13 commercial banks including independent banks and branches of regional banks.

We conducted one community contact with a local nonprofit affordable housing agency. We also reviewed one prior community contact with a county-wide business and labor group. Community contacts indicated a need for micro business loans and for affordable, owner occupied housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

INB is satisfactorily meeting the credit needs of its AA, including low- and moderate-income individuals and areas, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

INB's loan-to-deposit ratio meets the credit needs of its AA, meets the standard for satisfactory performance, and is comparable to other similar institutions in the AA. The bank's quarterly average loan-to-deposit ratio was 58.23% for the ten quarters since the prior CRA review.

The bank's loan-to-deposit ratio was 50.82% as of December 31, 1998. However, excluding the bank's significant amount of non-lendable public fund deposits, the bank's loan-to-deposit ratio is 74.12%. The average loan-to-deposit ratio of four independent commercial banks, with total assets of less than \$500 million and in the bank's AA, was 65.64% as of December 31, 1998. The loan-to-deposit ratio of these four banks ranged from 51.94% to 78.98%.

Lending in the Assessment Area (AA)

A majority of loans are originated within the bank's AA. Our review included all loan originations in the bank's 1998 Home Mortgage Disclosure Act - Loan Activity Report (HMDA-LAR), a sample of consumer loans originated in 1998, and a sample of business loans originated in 1998.

The following table reflects the bank's record of lending within the AA:

Loans Originated in the Assessment Area				
Loan Type	Number	Percent	\$ Amount	Percent
HMDA-LAR	195	82%	10,359	85%
Consumer	16	80%	132	75%
Business	17	85%	1,141	77%
Total	228	82%	11,632	84%

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

INB's primary product lines consist of commercial and commercial real estate, 1-4 family residential, and consumer loans. INB meets the standards for satisfactory performance of this criteria with a reasonable distribution of loans to individuals with different income levels and businesses of different sizes within the AA.

While the bank's HMDA-LAR reflects a relatively low level of residential related loans to low-income individuals, the bank has purchased a pool of loans (totaling \$251 thousand) from a McAllen nonprofit affordable housing agency. This pool of loans is strictly for homes of low- and moderate-income families. The bank also works with the city of Edinburg in providing residential loans to low- and moderate-income families. In addition to the residential loans made for the bank's own account, in 1998 the bank originated and sold 45 residential loans (totaling \$4.9 million) in the secondary market. These loans ranged in size from \$34 thousand to \$405 thousand.

The following table reflects the distribution of credit to borrowers of different income levels as reflected in the 1998 HMDA-LAR and in the sample of consumer loans.

Lending to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
Area Demographic Characteristics	22%		16%		16%		46%		100%	
<i>By Number</i>	#	%	#	%	#	%	#	%	#	%
Loan Type										
HMDA-LAR	4	2%	26	13%	45	23%	120	62%	195	100%
Consumer	2	10%	1	5%	7	35%	10	50%	20	100%
TOTAL	6	3%	27	13%	52	24%	130	60%	215	100%

As shown in the table below, a majority of our sample of commercial loans originating in 1998 were made to businesses with revenues of less than \$1 million.

Lending to Businesses of Different Sizes										
Revenue Ranges	<\$100 thousand		\$100 - \$500 thousand		\$500 - \$1,000 thousand		> \$1,000 thousand		Total	
<i>By Number</i>	#	%	#	%	#	%	#	%	#	%
Business Loans	7	35%	7	35%	3	15%	3	15%	20	100%

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the AA. INB geo-codes all loans by census tract. The bank's 1998 report of loan originations reflected that loans were made in all CTs in the AA and that 12% of the number of loans were to borrowers in moderate-income CTs.

The following table reflects the dispersion of the 1998 HMDA-LAR loans and our sample of consumer loans.

Lending in Areas of Different Income Levels within the Assessment Area										
	Low Income Areas		Moderate Income Areas		Middle Income Areas		Upper Income Areas		Total	
	#	%	#	%	#	%	#	%	#	%
Census Tracts	0	n/a	9	24%	14	38%	14	38%	37	100%
Loan Types										
HMDA-LAR	n/a	n/a	15	8%	114	58%	66	34%	195	100%
Consumer	n/a	n/a	2	13%	8	50%	6	38%	16	100%
Total	n/a	n/a	17	8%	122	58%	72	34%	211	100%

Response to Complaints

During this evaluation period INB has not received any consumer complaints regarding its CRA performance. Based on our fair lending review, no substantive violations of the anti-discrimination laws and regulations were identified. No practices were detected which are intended to discourage applicants from applying for the types of credit offered.