



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

December 21, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**City National Bank
Charter Number 16883**

**401 South Kansas
Weslaco, TX 78599**

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 **City National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **December 21, 1998**. 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 “**Satisfactory.**”

City National Bank (CNB) is responsive to the credit needs of the community, including low- and moderate-income individuals and areas. This is demonstrated by:

- A more than reasonable loan-to-deposit ratio given the economic and lending opportunities available in the assessment area. The loan-to-deposit ratio was 74% as of September 30, 1998 and averaged 64% for the last 14 quarters.
- A substantial majority of the bank's loans and other lending related activities are extended within the assessment area.
- Credit is well distributed to borrowers of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects satisfactory dispersion throughout the assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>CITY 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	✓		
Lending in Assessment Area		✓	
Lending to Borrowers of Different Incomes and to businesses of Different sizes		✓	
Geographic Distribution of Loans		✓	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

CNB is retail oriented with headquarters and two motor bank branches in Weslaco, Texas. An automatic teller machine is adjacent to the 400 North Texas Street motor bank. No branches have been opened or closed since the last CRA evaluation in May 1995. A satisfactory rating was received at that evaluation.

CNB has total assets of \$55 million with \$37 million, representing 67 percent of assets, in loans as of September 30, 1998. The bank's main line of business is small business loans. The principal loan mix is detailed below:

- Commercial Real Estate (36%)
- Commercial & Industrial (29%)
- Real Estate, 1-4 Family (22%)
- Individuals (10%)
- Other Loans (3%)

There are no legal or other impediments limiting CNB's ability to help meet the community's credit needs.

CNB is wholly owned by Weslaco Bancshares of Delaware, Inc., a one bank, holding company. The Delaware holding company is wholly owned by Weslaco Bancshares, Inc., a Texas corporation with assets of \$5.2 million as of September 30, 1998.

DESCRIPTION OF CITY NATIONAL BANK'S ASSESSMENT AREA

CNB's assessment area (AA) is the eastern portion of Hidalgo County. It includes the cities and communities of Weslaco, Elsa, Edcouch, Hargill, La Blanca, Monte Alto, N. Palm Garden, Progreso, Relampago and Mercedes. The portion of the county not included is an area west of Donna including McAllen. The county of Hidalgo is located in a metropolitan statistical area (MSA). The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

The AA population is 82 thousand with 18 thousand families reported by the 1990 Census Bureau information. There are five thousand families shown as low income, representing 28 percent of the population, and three thousand families or 17 percent of the population as moderate-income families. Middle-income and upper-income families are shown as 18 percent and 37 percent, respectively. The 1998 Department of Housing and Urban Development (HUD) updated median family income is \$25,500. This is the lowest income level of any MSA in the continental United States. There are 15 census tracts within the AA of which none are low-income, five are moderate-income, eight are middle-income, and two are upper-income tracts.

The economy is diversified with government agencies representing the largest employer, followed by retail trade and services. Unemployment was quoted at 17.2 percent for Hidalgo County at November 1998, by the Texas Workforce Commission. This is the highest unemployment rate for any MSA in Texas. The unemployment rate for Weslaco is 21 percent. Popular opinion is that these rates are historically high due to the high level of migrant workers that reside in the community. The county borders Mexico and is across from the Mexican border cities of Nuevo Progreso and Reynosa. Reynosa, which has an estimated population of one million, is home to more than 100 Maquiladoras which are production facilities that process or assemble components into finished products. These plants provide beneficial effects to the American economy through increased employment and income in Mexico. This, in turn, increases food and consumer good sales in Hidalgo County.

We made a repeat community contact with an official of the City of Weslaco. Business credit remains important for the creation of jobs. There is a continued need for affordable housing for low- and moderate-income individuals and the rehabilitation of the existing housing stock. Census data indicates there are 27 thousand housing units in the AA, with 16 thousand owner-occupied, and 19 thousand 1-4 family units. The median year built is 1974 and the median housing value is \$29,384.

Competition among financial institutions in CNB's assessment area is intense with two other unit banks and branches of eleven other community banks having offices in the area. The county also has three credit unions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

CNB is performing in a satisfactory manner in meeting the credit needs of the entire assessment area, including low- and moderate-income individuals and areas, consistent with its resources and capabilities.

▄ *Loan to Deposit Ratio*

During the last fourteen quarters, the bank's loan-to-deposit ratio went from 55% on June 30, 1995 to 74% at September 30, 1998, averaging 64 percent. This strong loan-to-deposit ratio exceeds the 59 percent, September 30, 1998 average, of four other independent financial institutions, all having deposits less than \$100 million and located or branched within the assessment area. These ratios are exceptional in relation to other financial institutions, lending opportunities, demographics, and economic factors present in the assessment area.

▄ *Lending in The Assessment Area*

A substantial majority of credit is extended within the assessment area. The 1998 Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR) indicates 35 originations, of which 66 percent of the number of loans were made within the assessment area. The HMDA-LAR tracks home purchase, home improvement, refinancing, and multifamily dwelling loans. The combined total of 1996 and 1997 originations from the HMDA-LAR shows 173 with 79% in the assessment area. The bank geocodes loan originations. Bank reports show that, of all consumer loans originating in 1998, 73% of the number of loans and 71 percent of the dollar volume were inside the AA. The report of all commercial loans made in 1998 showed 73 percent of the number of loans and 51 percent of the dollar volume were inside the AA. Our sample of loans in each of these categories to test the accuracy of the bank's data showed that the bank's data is reliable.

▄ *Lending to Borrowers of Different Incomes and To Businesses of Different Sizes*

CNB has a reasonable distribution of loans to businesses of different sizes within the assessment area and individuals with different income levels. For the largest segment of the loan portfolio, business loans, the bank has a significant volume of loans to small businesses. Likewise, the bank does a good job of lending to low- and moderate-income families. For home loans, the 1998 HMDA-LAR shows that the distribution of loans among the various income categories is not as close. However, there are a couple of good reasons why the bank's experience falls short of the demographics. First, the HUD consolidated plan for Hidalgo County indicates that low- and moderate-income households are more likely to rent than own. Second, there are a large number (42%) of people who live below the poverty level. This makes it much more difficult, if not impossible, for these families to purchase a home.

The chart below indicates CNB loans to businesses of all sizes, particularly very small businesses. The bank has outstanding loan balances of \$643 thousand representing five loans guaranteed by the Small Business Administration and six loans totaling \$557 thousand guaranteed by Farm Services Agency. The bank report on business loans originated in 1998 indicates 82 percent of these loans are to businesses reporting less than \$500 thousand in annual gross revenue. Our test sample of this population showed it to be reliable.

Lending to Businesses and Farms of Different Sizes										
Revenue Ranges (Thousand of Dollars (000's))	<\$100		\$100 - \$500		\$500 -\$1,000		> \$1,000		Total	
<i>By Number</i>	#	%	#	%	#	%	#	%	#	%
Business Loans	72	41%	74	41%	15	9%	15	9%	176	100%

The following table reflects the distribution of credit to borrowers of different income levels as reflected in the 1998 HMDA-LAR and samples of consumer and business loans. We used a sample of consumer loans made in 1998 versus the entire population of such loans made in 1998 (as in the prior evaluation factor), because the bank does not track the borrower's income level. As noted above, our sample of HMDA loans showed that the bank's records are reliable.

Lending to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
Area Demographic Characteristics	28%		17%		18%		37%		100%	
Count	5,075		3,186		3,294		6,861		18,416	
<i>By Number</i>	#	%	#	%	#	%	#	%	#	%
Loan Type										
Consumer	5	20%	6	24%	8	32%	6	24%	25	100%
Residential	3	13%	3	13%	4	17%	13	57%	23	100%
TOTAL	8	27%	9	31%	12	18%	19	24%	48	100%

➤ ***Geographic Distribution of Loans***

The geographic distribution of loans reflects a reasonable dispersion throughout the AA. CNB serves the credit needs of the most economically disadvantaged areas of its assessment area. The following table illustrates the level of lending among the various census tracts:

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	0%	5	34%	8	53%	2	13%	15	100%
Households	0	0%	8	39%	9	44%	4	17%	21	100%
Loan Types										
HMDA-LAR	0	0%	6	26%	10	44%	7	30%	23	100%
Consumer	0	0%	94	31%	141	46%	69	23%	304	100%

The above table reflects reasonable lending volume in moderate census tracts. Census information shows moderate tracts represent 34 percent of total AA tracts with 39% of the AA households.

CNB has geocoded all consumer and commercial loans. The geographic distribution report for all loans originated in 1998 reflects loans in all census tracts with good penetration throughout the assessment area.

➤ ***Response to Complaints***

During this evaluation period, CNB has not received any consumer complaints regarding its CRA performance.

➤ ***Record of Compliance with Anti-discrimination Laws***

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. The Board and management have developed adequate policies, procedures, and training programs to prevent discriminatory or other illegal credit practices.

