



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 9, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**McAllen National Bank
Charter Number 18068**

**1801 South McColl Rd.
McAllen, TX 78503**

**Comptroller of the Currency
San Antonio South Field Office
5350 South Staples, Suite 405
Corpus Christi, Texas 78411-4654**

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.

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

McAllen National Bank's lending performance reflects a satisfactory response to community credit needs. Factors in our assessment include:

- The bank's loan-to-deposit ratio is reasonable given the local economy, lending opportunities, and local competition in the assessment area (AA).
- The distribution of borrowers reflects a reasonable penetration among businesses of different sizes and individuals of different income levels.
- The geographic distribution of loans is reasonably dispersed throughout the AA.
- A substantial majority of loans and other lending-related activities are within the bank's AA.
- There are no consumer complaints with respect to the bank's CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

McAllen National Bank (MNB) is a community bank located in McAllen, Texas. The bank was founded in 1984 and had total assets of \$107 million as of March 31, 2003. MNB is a wholly owned subsidiary of Border Capital Group of Delaware, Inc., which is wholly owned by Border Capital Group, Inc., a Texas corporation with assets of \$12 million as of December 31, 2002. MNB has a main office, a full service branch, and a stand-alone motor bank. All three locations have an Automatic Teller Machine on the premises. The main office, as well as the branch and motor bank, are located in upper-income census tracts.

MNB 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 March 31, 2003, net loans represent 68 percent of total assets. A summary of the composition of the loan portfolio is as follows:

Loan Portfolio Composition As of March 31, 2003		
Loan Category	\$ (000)	%
Commercial Real Estate Loans	42,450	58
Commercial Loans	12,393	17
Residential Real Estate Loans	10,391	14
Consumer Loans	6,993	9
Agricultural Loans	1,197	2
Total	73,424	100

There are no legal, financial, or other factors that impede MNB's ability to help meet the credit needs of the AA. The previous CRA Performance Evaluation, dated March 2, 1998, assigned a satisfactory rating to the bank. There have been no changes in the bank's corporate structure.

DESCRIPTION OF HIDALGO COUNTY – MCALLEN-EDINBURG-MISSION, TX (MSA)

MNB has identified Hidalgo County, which is in the McAllen-Edinburg-Mission MSA, as the bank's AA. 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. The AA consists of 19 moderate-income, 27 middle-income, and 17 upper-income census tracts. Twenty-six percent of the families in the AA are in the moderate-income tracts, 47 percent are in the middle-income tracts, and 27 percent are in the upper-income tracts. Thirty-six percent of the households are below the poverty level.

The McAllen-Edinburg-Mission MSA continues to experience a population surge largely associated with significant cross-border trade opportunities. The MSA's economy more than doubled in size in the 1990's making it the third fastest growing MSA in the nation. Major employers in the MSA include school districts, hospitals, services, trade, and 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. MNB's main competitors in the AA are locally based Texas State Bank, Lone Star National Bank, Inter National Bank, N.A., Rio Bank, and First National Bank, Edinburg. Branches of Chase Manhattan Bank, International Bank of Commerce, and Frost National Bank offer additional competition for both loan and deposit products. The following table depicts additional AA demographics.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	88,615
Number of Households	103,514
<i>Geographies</i>	
Number of Census Tracts/BNA	63
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	30.16%
% Middle-Income Census Tracts/BNA	42.86%
% Upper-Income Census Tracts/BNA	26.98%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	17,619
1998 HUD-Adjusted MFI	25,500
1999 HUD-Adjusted MFI	27,400
2000 HUD-Adjusted MFI	28,000
2001 HUD-Adjusted MFI	29,100
2002 HUD-Adjusted MFI	29,200
<i>Economic Indicators</i>	
Unemployment Rate-AA December 2002	13.3%
Unemployment Rate-State December 2002	6.2%
Unemployment Rate-National 2002	6.0%
% of Owner Occupied Housing	56.70%
1990 Median Housing Value	39,636
% Of Households Below Poverty Level	36.45%

We reviewed four community contact interview summaries recently conducted in Hidalgo County. We also contacted an economic development organization to discuss community development and credit needs in the area. The contacts identified loans to small businesses and affordable housing as predominant credit needs.

SAMPLING INFORMATION

Our review focused on MNB's three primary product lines: commercial, home mortgage, and consumer loans. We sampled 27 commercial loans and 20 consumer loans where the bank collected income information. Additionally, we sampled 45 home purchase and home improvement loans originating since the last CRA examination and reported under the provisions of the Home Mortgage Disclosure Act (HMDA). For the Lending to Borrowers of Different

Incomes, Lending to Businesses of Different Sizes, and Geographic Distribution of Loans analysis, we omitted loans that were made outside of the AA. The loans included in the sample originated between April 1, 1998 and March 31, 2003 and were selected at random.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

MNB satisfactorily meets the credit needs of the AA, including low- and moderate-income individuals and areas, consistent with its location, local competition, resources, and capabilities.

Loan-to-Deposit (LTD) Ratio

MNB's LTD ratio meets the standards for satisfactory performance given its size, primary loan products, and the credit needs of the AA. MNB's LTD ratio is reasonable when compared to other banks headquartered in and around McAllen, and within Hidalgo County. The quarterly average ratio (prior twenty-one quarters) is 68 percent. MNB's LTD ratio is in the mid-range of similarly situated banks in the AA. The bank's quarterly LTD ratio has ranged from 60 percent to 85 percent since the prior CRA review. The following table depicts the LTD ratios of several similarly situated banks and MNB.

Institution	Assets as of March 31, 2003 (000's)	Average LTD Ratio 3/31/98 – 3/31/03
Rio Bank	\$58,789	71%
Inter National Bank, N.A.	\$694,407	58%
Lone Star National Bank	\$660,896	76%
First National Bank, Edinburg	\$1,610,674	59%
Texas State Bank	\$4,023,991	68%
<i>McAllen National Bank</i>	<i>\$107,421</i>	<i>68%</i>

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

MNB's lending performance related to borrowers of different incomes and to businesses of different sizes meets the standards for satisfactory performance. The loan distribution reflects a reasonable penetration among business of different sizes and individuals of different income levels. Although commercial loans are the dominant lending product, the bank also originates a significant number of loans for home purchase and consumer needs.

Our sample of commercial loans reflects an appropriate level of lending to small businesses. The following table illustrates the lending distribution to businesses located within MNB's AA. A small business is defined as a business with annual revenues of less than \$1 million.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% Of AA Businesses	92	8
% of Bank Loans in AA #	70.37	29.63
% of Bank Loans in AA \$	59.16	40.84

MNB's distribution of loans by income level of the borrower is adequate when considering the high percentage of households that live below the poverty level in the AA. We factored into our analysis of home mortgage loans the difficulty that low and moderate-income individuals have in purchasing a home in the AA. The low percentage is reasonable given that 36 percent of the households in the AA are below the poverty level. The predominant development of new home subdivisions in the AA aimed at higher income individuals also contributes to the low penetration in the low- and moderate-income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	24		17		16		43	
LOAN TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	0	0	9	4	13	5	78	91

Our sample of 20 consumer loans reflects a good penetration of loans to moderate- and middle-income individuals. The low percentage of loans to low-income individuals is attributable to the high percentage of households below the poverty level. The high number of other financial institutions, branches, and finance companies in the AA also contributes to MNB's relatively low percentage of consumer loans to low-income individuals.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	26		16		15		43	
LOAN TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer Loans	10	5	30	22	25	15	35	58

Geographic Distribution of Loans

MNB's lending performance related to the geographic distribution of loans meets the standards for satisfactory performance. The geographic distribution of loans reflects reasonable dispersion throughout the AA. The following tables indicate the lending distribution of the sampled residential, consumer, and commercial loans originated in the AA during the evaluation period.

MNB's penetration in moderate-income tracts for residential and commercial loans is lower than

area demographics primarily due to the bank's limited branch network, location of offices in upper-income-tracts, and strong competitors that have branches throughout the AA.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Tracts	0		30		43		27	
% of Owner-Occupied Housing	0		24		48		28	
LOAN TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	0	0	16	8	28	32	56	60

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		39		18		43	
LOAN TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Commercial Loans	0	0	12	14	25	30	63	56

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0		25		46		29	
LOAN TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Consumer Loans	0	0	25	33	45	40	30	27

Lending in Assessment Area

MNB's lending performance related to loans made in its assessment area versus loans made outside of its assessment area exceeds the standards for satisfactory performance. A substantial majority of MNB's lending related activities is within the AA. This assessment is based on our sample of commercial, home mortgage and consumer loans. As illustrated in the following table, we determined that 90 percent of both the dollar and number of the sampled loans were located within the AA. The following table shows MNB's lending activities in and out of the AA by type of loan sampled.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home Purchase	39	87	3,333	83	6	13	691	17
Consumer Loans	20	100	140	100	0	0	0	0
Commercial Loans	24	89	3,393	97	3	11	91	3
Total Reviewed	84	90	6,921	90	9	10	782	10

Responses to Complaints

No consumer complaints regarding MNB's CRA performance were received during this evaluation period.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal practices.