



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 8, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mercedes National Bank
Charter Number 11879**

**201 South Texas
Mercedes, Texas 78570**

**Office of the Comptroller of the Currency
Corpus Christi Duty Station
5350 South Staples, Suite 405
Corpus Christi, Texas 78411**

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 **Mercedes National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency as of October 8, 1997. 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**”.

Mercedes National Bank is responsive to the community's credit needs, including low and moderate income individuals and areas. This is evidenced by the following:

- Mercedes National Bank's loan-to-deposit ratio meets the standards for satisfactory performance, averaging 58.5% over the 35 month period since the prior CRA Evaluation. This compares favorably to similar institutions in the county.
- A majority of Mercedes National Bank's loans are within its assessment area which meets the standards for satisfactory performance. Approximately 62.9% of all loans and 90.5% of residential loans originated in 1996 and the first six months of 1997, were made in the assessment area.
- The distribution of commercial loans reflects a strong penetration among businesses of different sizes. The distribution of loans to individuals of different income levels is reasonable.
- The geographic distribution of loans originated by Mercedes National Bank reflects a reasonable dispersion considering the demographic characteristics of the assessment area.
- There have been no consumer complaints regarding Mercedes National Bank's CRA performance during this evaluation period.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	Mercedes National Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Mercedes National Bank (MNB) is an independently owned community bank located in Mercedes, Texas with total assets of \$26 million. MNB has an automated teller machine on its premises, but does not have any branch offices. It is the only financial institution headquartered in Mercedes, however, competition is considered strong. There are three branches of other community banks in the assessment area (AA). There are also several other financial institutions within a five mile radius of the assessment area in the cities of LaFeria to the East and Weslaco to the West.

MNB is a wholly owned subsidiary of Mercedes Bancorp, Inc., a one bank holding company. Lending is centered in 1-4 family residential, consumer, and commercial real estate loans. The distribution within the loan portfolio, as of June 30, 1997, is as follows:

Loan Type	Dollar Volume (000's)	% of Loan Portfolio
1-4 Family Residential	6,881	43.4
Consumer	3,745	23.6
Commercial Real Estate	3,084	19.5
Commercial	938	5.9
Agriculture Real Estate	735	4.6
Agriculture	477	3.0
Totals	15,860	100.0

Management stated the opportunities for community development projects is limited. There are no legal, other financial, or other factors that impede the bank's ability to help meet the credit needs of the AA.

DESCRIPTION OF THE ASSESSMENT AREA

MNB's assessment area is defined as the southeast corner of Hidalgo county, which is in the Rio Grande Valley. It is in the McAllen Metropolitan Statistical Area . It's AA includes the cities of Mercedes and Progresso and the surrounding rural communities. The assessment area encompasses five census tracts with an estimated population of 23 thousand. Agriculture is the primary industry with crops centered in cotton, grain sorghum, sugar cane, aloe, vegetables, and

citrus. The Rio Grande Valley experienced a severe cotton crop failure in 1995. Otherwise the economy is good with increases in retail sales, construction permits, bank deposits, and tourism. Despite this, unemployment is high because of the migrant nature of the labor force.

The AA is comprised of three moderate and two middle income census tracts. While there are no low income census tracts, 31.4% of the households are defined as low income. The median family income is \$14,009 which defines moderate income to be between \$7,005 and \$11,207. Low income is at or below \$7,005. Contact with government agency representatives indicated loans for affordable housing continues to be the primary credit need of the community. The AA meets the requirements of the regulation, contains whole census tracts, and does not arbitrarily exclude any low- to moderate-income areas.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

- **Loan to Deposit Ratio**

MNB's loan-to-deposit ratio meets the standard for satisfactory performance and is comparable to other similar institutions in the county. MNB's loan-to-deposit ratio has averaged 58.5% since the prior CRA evaluation, dated November 15, 1994. As of June 30, 1997, the loan-to-deposit ratio was 63.8%. The loan-to-deposit ratios for the three competitor branches located in the AA are not published. MNB's loan-to-deposit ratio, net of public funds is 71.7%.

- **Lending in the Assessment Area**

A majority of MNB's loans are in the assessment area, meeting the standards for satisfactory performance. Our analysis indicates 62.9% of the number of all loans and 96.8% of number of residential loans originated in 1996 and the first six months of 1997 are within the assessment area. Consumer loans granted during the same time period to residents of the AA comprised 63.8%. Our commercial loan sample for that time also reflected a similar penetration of 66.0%. The Home Mortgage Disclosure Act (HMDA) reports for 1996 reflect 90.5% and 80.3% penetration of the AA by number and dollar volume, respectively.

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

The distribution of consumer and small business loans meets the standards for satisfactory performance. It demonstrates an acceptable level of lending to low- and moderate-income (LMI) individuals and businesses with sales of less than \$1 million.

Our comparison of the loans reviewed to the demographic income characteristics of the assessment area are detailed in the table on the following page:

	Loan Sample Distribution by Income Group									
	Low Income Households		Moderate Income Households		Middle Income Households		Upper Income Households		Total # of Households	
Assessment Area Demographic Characteristics	31%		18%		19%		32%		100%	
# of Households	1,643		935		982		1,669		5,228	
	#	%	#	%	#	%	#	%	#	%
Consumer Loan Sample	2	12	2	12	4	24	9	52	17	100
1996 Home Improvement Loans - HMDA	5	7	5	7	11	16	29	42	69	100

The distribution of loans to businesses of different sizes demonstrates good efforts to extend credit to small businesses in the AA. The 38 commercial loans made in the AA during the eighteen month period ending June 30, 1997, average \$17 thousand. This size loan is usually indicative that the businesses have gross revenues of less than \$1 million. Our sample of 20 of the largest business relationships disclosed that 18, or 90%, had annual sales of less than \$1 million.

- **Geographic Distribution of Loans**

The geographic distribution of loans is reasonably dispersed throughout the AA as shown on the following page:

Lending in Areas of Different Income Levels within the Assessment Area										
	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts		Total	
Percent of Total Census Tracts in the Assessment Area	0%		60%		40%		0%		100%	
Number of Tracts	0		3		2		0		5	
Loan Types	#	%	#	%	#	%	#	%	#	%
Consumer Sample	0	0%	362	64	202	36	0	0	564	100
Commercial Sample	0	0%	17	55	14	45	0	0	31	100
HMDA-1996	0	0%	12	80	3	20	0	0	15	100

- **Responses to Complaints**

No complaints concerning MNB's CRA performance have been received during this evaluation period. No practices were detected which are intended to discourage applicants from applying for the types of credit offered. We reviewed the terms requested/granted on 10 approved and 20 denied consumer applications to determine if there are any indications of illegal discrimination on the basis of sex. Based on our sample, there is no indication discrimination has occurred on this basis in the granting or denial of these loans. No violations of the substantive provisions of anti-discrimination laws and regulations were identified.