



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 1, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**InterContinental National Bank
Charter Number 15319**

**6810 Military Drive West
San Antonio, TX 78227**

**Comptroller of the Currency
San Antonio South Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, Texas 78216-4160**

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.

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 Community Reinvestment Act (CRA) performance of InterContinental National Bank, San Antonio, Texas as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of October 1, 2001. 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.

InterContinental 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 very good and compares favorably with similarly situated financial institutions.
- The ratio of loans made within the bank's assessment area (AA) is reasonable.
- 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.
- There are no consumer complaints with respect to the bank's CRA performance.

DESCRIPTION OF INSTITUTION

InterContinental National Bank (INB), a \$76 million financial institution was founded in 1964. It has three full service locations in San Antonio, Texas. The bank also operates two motor-banks, one walk-up facility, and two automatic teller machines. Customers can also access their accounts through Internet banking services. INB also maintains a representative office in Mexico City, Mexico. INB is independently owned by a one-bank holding company, InterContinental Bank Shares Corporation, which is headquartered in San Antonio. Management and the Board's emphases are on loans to small businesses, professionals and executives, and international customers. Competition is strong from a federal savings bank, six other community banks, four regional banks, three large credit unions, several finance companies, and numerous mortgage lenders.

As of June 30, 2001, net loans of \$54 million represent 71 percent of INB's total assets. Commercial loans represent 81 percent of total loans, by dollar amount. The bank is very active in Small Business Administration (SBA) guaranteed loan programs. SBA loans represent 12.4 percent of the commercial portfolio. International loans total \$24 million and represent 32 percent of total assets. A summary of the loan portfolio distribution is as follows:

Loan Portfolio Composition		
As of June 30, 2001		
Loan Category	\$ (000)	%
Commercial (including Small Business Loans)	30,962	58
Commercial Real Estate Loans	12,540	23
Residential Real Estate Loans	8,647	16
Consumer Loans	1,508	3
Total	53,657	100

There are no legal or financial circumstances that impede the bank's ability to help meet the credit needs in its assessment area. INB was previously rated "satisfactory" for its CRA performance at March 12, 1997. Since the last evaluation, the bank has undergone a complete change in ownership.

DESCRIPTION OF ASSESSMENT AREA

The bank is located in the San Antonio Metropolitan Statistical Area (MSA), which includes Bexar, Comal, Guadalupe and Wilson counties. Management has designated 92 census tracts in Bexar County as its assessment area. The tracts are in relation to INBs offices and located within the North, Northwest and West portions of San Antonio. Fifteen (16 percent) of these tracts are considered moderate-income. Thirty-six (39 percent) are considered middle-income, and 41 (45 percent) are considered upper-income. There are no low-income census tracts in the

bank's AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The population of the AA is approximately 579,092 based on 1990 census data. The median housing value is \$77,204 and the median year built is 1971.

Economic conditions are currently good. The San Antonio MSA is one of the fastest growing MSAs in the country, and unemployment is currently below average. The AA is heavily banked with 15 other financial institutions, not including independent mortgage and finance companies. Tourism, service providers, and military bases continue to be a strong source of employment for the AA. Construction activity, particularly housing starts, has been strong during the past few years.

The 2001 updated Department of Housing and Urban Development (HUD) weighted-average median family income (MFI) for the AA is \$45,300. Of families living in the AA, 16 percent are low-income, 15 percent are moderate-income, 20 percent are middle-income, and 49 percent are upper-income. (Refer to the chart on the next page for additional information on the economic and demographic characteristics of the AA.)

We conducted one community contact with an executive of a community-based organization in the AA. The contact revealed that the primary credit need was loans to small businesses. They felt that banks located in the AA were doing a good job in providing credit and services to both businesses and individuals. The contact was unaware of any complaints from their members against any local financial institution.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	149,022
Number of Households	219,172
<i>Geographies</i>	
Number of Census Tracts/BNA	92
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	16.30
% Middle-Income Census Tracts/BNA	39.13
% Upper-Income Census Tracts/BNA	44.57
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	37,362
2001 HUD-Adjusted MFI	45,300
2000 HUD-Adjusted MFI	43,100
1999 HUD-Adjusted MFI	41,900
1998 HUD-Adjusted MFI	39,800
<i>Economic Indicators</i>	
Unemployment Rate-AA *	3.24
Unemployment Rate - State *	5.00
Unemployment Rate-National *	4.90
2001 Median Housing Value	77,204
% of Households Below Poverty Level	11.70

* As of August 31, 2001

SAMPLING INFORMATION

Our review focused on INB's two main domestic product lines: commercial loans, which include loans to small businesses, and commercial real estate loans. In each of the two main product lines, we sampled 20 loans where the bank collected income information. In addition to the above, we also included a sample of 20 residential mortgage loans. Consumer loans were not included in the sample as they represent only a small portion of the bank's loan portfolio. For the *Lending to Borrowers of Different Incomes*, *Lending to Businesses of Different Sizes* and *Geographic Distribution of Loans* analyses, we omitted loans that were made outside of the AA. All loans sampled were originated between April 1, 1997 and September 30, 2001, and selected at random.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has demonstrated "**satisfactory**" performance in meeting the credit needs of the AA.

Loan-to-Deposit Ratio

INBs loan-to-deposit ratio exceeds the standards for satisfactory performance, and has steadily increased since the last examination. During this review period, the ratio has ranged from 69.3 to 77.3 percent with a quarterly average ratio of 74.9 percent. This ratio compares favorably to the previous average of 67.0 percent. It also compares favorably in relation to ratios of other area financial institutions of similar size. When compared with the four area banks that have less than \$150 million in total assets, INB has the second highest loan-to-deposit ratio. The group's actual loan-to-deposit ratios range from 67 to 77 percent. The chart below compares INB's ratio to that of its peers.

Institution	Assets \$(000) as of 6/30/01	Average LTD Ratio
Clear Lake National Bank	51,127	77%
Intercontinental National Bank	75,946	75%
Mission National Bank	36,515	71%
Plaza Bank	66,596	67%
Schertz Bank & Trust	86,006	67%

The above ratios are the bank's total loan-to-deposit ratios. International (foreign) deposits make up 57 percent of INB's total deposit base, and 45 percent of total loans. Using only the bank's domestic (local) numbers, INB's loan-to-deposit ratio would be 99 percent, far exceeding the ratios of the other area banks. The following table reflects the bank's domestic lending activity.

Domestic Only Loan-to-Deposit Ratios

Date	Total Deposits \$(000)	Total Loans \$(000)	LTD Ratio
June 30, 2001	29,818	29,486	99%
March 31, 2001	30,885	28,298	92%
December 31, 2000	39,759	27,707	70%
September 30, 2000	31,798	27,798	88%
June 30, 2000	34,246	28,173	82%

Lending in Assessment Area

INB's lending within their AA meets the standards for satisfactory performance. This conclusion is based on loans from our sample and internal bank reports. From the sample, 63 percent by number of loans, and 49 percent by dollar amount of loans were to borrowers located within the bank's AA. Internally generated reports only calculated number of loans within the AA. The most current report showed that 70.6 percent of loans generated between January 1, 2000 and September 30, 2001 were to borrowers residing within the AA. The total number of loans outstanding at September 30, 2001 showed 67.7 percent were within the AA. Our sample indicates that these reports are accurate. The following table shows the bank's lending in and out of the AA by type of loan sampled.

Lending In and Out of the Assessment Area								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential RE	13	65	1,610	56	7	35	1,270	44
Commercial RE	11	55	2,470	34	9	45	4,732	66
Commercial Loans	14	70	2,131	82	6	30	452	18
Total Reviewed	38	63	6,211	49	22	37	6,454	51

Although less than 50 percent of the dollar volume of sampled commercial real estate loans were inside the AA, the percentage was skewed by the existence of three large loans just outside the designated lending geography. Had these loans been included, the dollar volume of sampled commercial real loans in the AA would have been 68 percent. In addition, the dollar volume of residential loans sampled was also skewed by the existence of one large loan outside the designated lending geography. Had all four of these larger loans been included, the total dollar ratio would have been 71 percent within the AA.

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

INB meets the standards for satisfactory performance for loans made to businesses of different sizes and individuals with different income levels. A sample of 40 combined commercial and commercial real estate and, 20 residential mortgage loans made within the AA were used for this evaluation. The loans were originated during the same review period. A small business is defined as a business with annual revenues of less than \$1 million. The income levels of borrowers are classified based upon the 2000 and 2001 HUD estimated San Antonio MSA MFI of \$43,100 and \$45,300, respectively. The following table provides information on how each income level is defined.

Income Categories of Borrowers			
Income Level	Percent of Median Family Income	Income Ranges	
		2000	2001
Low	Less than 50%	Less than \$21,550	Less than \$22,650
Moderate	50% to less than 80%	\$21,550 to less than \$34,480	\$22,650 to less than \$36,240
Middle	80% to less than 120%	\$34,480 to less than \$51,720	\$36,240 to less than \$54,360
Upper	120% and over	More than \$51,720	More than \$54,360

Although the AA is not the entire San Antonio MSA, the HUD estimated MFI is identical.

Of the 40 sampled business loans INB made in its AA, 30 (75 percent) were to small businesses. The following table illustrates the lending distribution to businesses located within the bank's AA.

Borrower Distribution of Loans to Businesses (Non-Farm)		
Business Revenues	≤\$1,000,000	>\$1,000,000
*% of AA Businesses	88	8
% of Bank Loans in AA #	75	25
% of Bank Loans in AA \$	74	26

* Four percent of businesses did not report their revenues.

As the table shows, the percent of both number and dollar of loans granted to small businesses exceeds the number and dollar of loans to larger businesses. The ratio also fairly represents the percentage of area businesses reporting these income levels. The above ratios are indicative of a reasonable level of performance regarding loans to small businesses. The next table reflects the residential borrowers' income level distribution compared to income levels of the population.

Distribution of Borrowers by Income Level Residential Real Estate								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	16		15		20		49	
LOANS BY YEAR	% of Number	% of Amount						
1998	0	0	0	0	0	0	15	6
1999	0	0	5	4	5	2	10	12
2000	5	1	0	0	0	0	35	32
2001	0	0	0	0	0	0	25	43
Total	5	1	5	4	5	2	85	93

INB's level of residential lending to each income level is acceptable when viewed from the assessment area's population demographics and other related factors. Specifically, 11.7 percent of the assessment area's population is below the poverty level, which generally tends to exclude this segment of the community from a potential loan pool from which the institution can draw. As previously stated, INB's primary lending focus is commercial loans. Management states that the bank is in a highly competitive market for residential loans and does not compete for this type of lending. In addition, a substantial majority of growth in the AA is in the northern portion of the city, which is all upper income and higher priced home.

Geographic Distribution of Loans

INB's geographic distribution of loans throughout the AA is reasonable and meets the standards for satisfactory performance. The following table illustrates the lending distribution of the combined commercial and commercial real estate loans sampled that were made within the AA.

Distribution of Business Loans (Non-Farm)								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		10		44		46	
LOANS BY YEAR	% of Number	% of Amount						
1998			2	1	15	16	13	11
1999			0	0	18	18	2	6
2000			10	9	5	14	5	2
2001			5	3	15	10	10	10
Totals	NA	NA	17	13	53	58	30	29

As the table shows, the percent of both number and dollar of business loans granted are reasonably disbursed when compared to the AA demographics. The table below illustrates the lending distribution of sampled residential loans made within the AA.

Distribution of Borrowers by Tract Income Level Residential Real Estate								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0		12		35		53	
LOANS BY YEAR	% of Number	% of Amount						
1998			0	0	0	0	15	7
1999			0	0	10	4	10	14
2000			5	1	10	11	25	23
2001			0	0	5	5	20	35
Totals	NA	NA	5	1	25	20	70	79

The concentration of residential loans in middle- and upper-income tracts is reasonable given that the largest population centers are located within these geographies. In contrast, the number of families living in moderate-income tracts are dispersed over much larger geographic boundaries and located further away from INB's banking facilities.

Management conducts an analysis of total loan distribution quarterly. The analysis is based on all loan types. Per demographic data of the AA, 12.9 percent of households within the AA are in moderate-income census tracts. Internally generated reports indicate 30 loans, or 13.6 percent, originated between January 1, 2000 and September 30, 2001 were in moderate-income tracts. Total loans outstanding indicate that 14.2 percent are in moderate-income tracts.

Qualified Investments

INB is member of the San Antonio-based Community Development Loan Fund (CDLF). The CDLF is a lending fund created by a consortium of local banks and the City of San Antonio. The CDLF provides loans of \$25,000 to \$100,000 to assist in the development of small, minority, and women-owned businesses in the counties making up the San Antonio MSA, as well as the surrounding counties of Atascosa, Bandera, Kendall, and Medina. INB, in

partnership with CDLF, has provided \$788,250 in financing to small businesses.

Responses to Complaints

There have been no CRA-related consumer complaints received since the previous evaluation.

Record of Compliance with Anti-discrimination Laws

An analysis of four years public comments, consumer complaint information, and HMDA data was performed according to the OCC's risk based fair lending approach. Based on its analysis of this information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1997. There were no indications of any prescreening or discouragement of applicants noted during this review.