



Comptroller of the Currency
Administrator of National Banks

Public Disclosure

October 23, 1997

Community Reinvestment Act Performance Evaluation

**Falcon National Bank
Charter Number: 22835**

**5219 McPherson Road
Laredo, Texas 78041**

**Office of the Comptroller of the Currency
San Antonio Duty Station
9601 McAllister Freeway, Suite 200
San Antonio, Texas 78216**

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 **Falcon National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 23, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated "**Satisfactory**."

Falcon National Bank's lending performance reflects satisfactory responsiveness to community credit needs. The following highlights the performance:

- The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs.
- A substantial majority of loans and other lending related activities originated in 1996 are in the assessment area.
- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.
- The bank has received no consumer complaints concerning its CRA performance since the August 31, 1995, examination.

The following table shows the performance level with respect to each of the five performance criteria.

Small Institution Assessment Criteria	Falcon 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

Falcon National Bank has total assets of \$62 million and provides services through the main office and a recently opened branch, both in Laredo, Texas. It is a member of Falcon Bancshares Inc., a one bank holding company. Assets of the holding company are limited to the bank. Falcon National Bank is a Small Business Administration lender and recently obtained certification as a Federal National Mortgage Association seller and servicer, enhancing its strong residential lending effort. It is also involved in a Federal Home Loan Bank of Dallas program designed to provide affordable residential loans.

The bank's financial position is strong and there are no legal, financial, or other impediments to its ability to meet credit needs in its assessment area. The previous Community Reinvestment Act examination was dated August 31, 1995. As of June 30, 1997, loans represented 62% of total assets and consisted of:

Loan Type:	Dollar Volume (000's)	% of Loan Portfolio
1-4 Family Residential	17,923	47%
Consumer	7,727	20%
Commercial Real Estate	11,376	29%
Commercial	1,364	4%
Agricultural	16	0%
Total	38,406	100%

ASSESSMENT ARE DESCRIPTION

The assessment area meets the requirements of the regulation and does not arbitrarily exclude low or moderate income geographies. It comprises the Laredo Metropolitan Statistical Area (MSA) and is defined as Webb County, Texas, which is on the Rio Grande River next to Nuevo Laredo, Mexico. The Laredo MSA has a population of approximately 133,000 with an estimated 1997 median family income of \$27,300. Webb County is composed of twenty-four census tracts, eleven of which are designated as moderate income, eight as middle income and five as upper income.

Webb County is one of the poorest metropolitan areas in Texas with 34% of households being below the poverty level. However, the county has experienced substantial economic and population growth in recent years, with much of it related to Laredo's status as a major "inland port" for trade with Mexico. The economy is increasingly dependent on trade with Mexico, with a strong commercial retail and energy components.

The bank has very strong competition, with several commercial banks and credit unions operating in the area.

As part of the examination, we conducted a community contact with the local realtor association. The contact identified specific residential lending programs and opportunities available to help

provide affordable housing to low income home buyers in the Laredo area. The contact did not have any criticisms that were specific to any of the local financial institutions.

CONCLUSIONS WIT RESPECT TO PERFORMANCE CRITERIA

Management is performing satisfactorily in meeting the credit needs of the assessment area, including low- and moderate-income individuals and areas, consistent with its resources and capabilities.

Loan to Deposit Ratio

The loan-to-deposit ratio is more than reasonable and compares very favorably with other institutions in the area having similar characteristics. It has averaged 71% for the past eight quarters. The other commercial banks in Webb County averaged 51% over the same period.

Lending in Assessment Area

A substantial majority of loans and lending related activities are in the assessment area. Management's geo-coding analysis shows that, by dollar amount, 95% of consumer, mortgage and commercial loans made in 1996 were within the assessment area. All residential loans originating in 1996 were to borrowers within the assessment area.

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

The distribution of loans to borrowers of different income levels demonstrates reasonable lending levels to low- and moderate-income households. Although the percentage of residential loans to low- and moderate-income borrowers does not closely reflect area demographics, the income level for those borrowers is so low that it largely precludes extending residential loans. Consumer lending patterns more closely follow demographic patterns.

A distribution by income group is detailed in the following table.

Distribution by Income Group										
	Low Income		Moderate Income		Middle Income		Upper Income		Total	
% Households	26%		15%		16%		43%		100%	
# Households	9,021		5,292		5,376		14,820		34,510	
Loan Type	#	%	#	%	#	%	#	%	#	%
Consumer	4	20	3	15	5	25	8	40	20	100
Residential	4	3	12	10	55	44	53	43	124	100

The distribution of loans to businesses of different sizes demonstrates good lending efforts to small businesses in the assessment area. Of a sample of ten loans, six were to businesses with revenues of less than \$1,000,000.

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion given the demographic characteristics of the assessment area. The assessment area includes eleven moderate income tracts, eight middle income tracts and five upper income tracts. Management has extended credit in all of the census tracts in the assessment area. Census figures show that 41% of households in the Laredo MSA reside in moderate income tracts, 28% are in middle income tracts, and 31% are in upper income tracts. The recent opening of the bank's first branch (earlier this year) in downtown Laredo should improve its access to moderate income areas.

The bank's analysis of loan originations made in 1996 reflected the following geographic distributions:

Lending in Areas of Different Income Levels within the Assessment Area										
Loan Type:	Low Income		Moderate Income		Middle Income		Upper Income		Total	
	0	%	11	%	8	%	5	%	24	%
Consumer	0	0	39	21	50	27	97	52	186	100
Residential	0	0	24	16	13	9	111	75	148	100
Commercial	0	0	7	8	27	28	61	64	95	100
Total	0	0	70	16	90	21	269	63	429	100

Response to Complaints

The bank has not received any comments from the public regarding their performance.