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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

December 19, 1996

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank  
Charter Number 14124**

**100 West Cano  
Edinburg, TX 78450**

**Office of the Comptroller of the Currency  
1600 Lincoln Plaza  
500 North Akard  
Dallas, Texas 75201-3394**

**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 Community Reinvestment Act (CRA) performance of **First National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of December 19, 1996. 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 Outstanding.

First National Bank is responsive to the community's credit needs, including low- and moderate-income individuals and areas. This is demonstrated by:

- More than reasonable loan-to-deposit ratios given the economic, financial condition, and lending opportunities available in the assessment area. The loan to deposit ratio was 71% as of September 30, 1996, and averaged 62% for the last 12 quarters.
- A substantial majority of 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 excellent dispersion throughout the assessment area.
- The record of providing branches and other services enhances credit availability.

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

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b><u>First National Bank</u> PERFORMANCE LEVELS</b>		
	<b>Exceeds Standards for Satisfactory Performance</b>	<b>Meets Standards for Satisfactory Performance</b>	<b>Does not meet Standards for Satisfactory Performance</b>
Loan to Deposit Ratio	XXX		
Lending in Assessment Area	XXX		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	XXX		
Geographic Distribution of Loans	XXX		
Response to Complaints	No complaints were received since the prior compliance examination.		
Services	XXX		

## **DESCRIPTION OF INSTITUTION**

First National Bank (FNB) is headquartered in Edinburg, Texas, with branches in Elsa, McAllen, Mercedes, Brownsville and Hidalgo, Texas. The Brownsville branch opened in August 1996 and the Hidalgo branch in November 1996. Automatic teller machines are located at five of the branches. Each branch features a full service lobby and a drive-up facility. FNB has opened four branches since the last CRA evaluation in March of 1993. An outstanding rating was received at that evaluation. Construction is also in progress for a branch in Pharr which is anticipated to open in mid-1997. No branches have been closed since the last evaluation.

FNB has total assets of \$300.5 million with \$186 million, 62% of assets, in loans. FNB focuses on consumer loans which comprise 32% of the portfolio. Real estate (1-4 family), and commercial loans comprise 24% and 14%, respectively. There are no legal or other impediments limiting FNB's ability to help meet the community's credit needs.

FNB is wholly owned by First National Bank Group, Inc., a one bank holding company with assets of \$299 million as of September 30, 1996.

## **DESCRIPTION OF ASSESSMENT AREA**

FNB's assessment area is Hidalgo County and the City of Brownsville, located in Cameron County. The assessment area does not arbitrarily exclude low- or moderate-income geographies. The counties of Hidalgo and the City of Brownsville are located in a metropolitan statistical area (MSA).

This evaluation reflects only Hidalgo County since the branch in Brownsville is new and data would not be significant at this time. The Hidalgo County population is 384 thousand with 86 thousand families as reported by the 1990 Census Bureau information. There are 22 thousand families, 25%, shown as low-income and 15 thousand, 17%, as moderate-income families. Middle-income and upper-income are shown as 17% and 42% respectively. The 1990 Census reports the MSA median family income at \$17,619. There are 63 census tracts within the county of which none are low-income, 19 are moderate-income, 27 are middle, and 17 are upper-income tracts.

The economy is diversified with government being the largest employer followed by retail trade and services. The local agricultural economy remains stagnant due to continued drought conditions which have negatively impacted farming and ranching. Unemployment has continued to drop the past four years and was quoted at 16.9% in the 4th quarter of 1994 by the US Bureau of Labor Statistics. The county borders Mexico and is across from the Mexican border city of Reynosa, which has an estimated

population of 700 thousand. Reynosa is home to nearly 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 which increases food and consumer good sales in Hidalgo County.

We reviewed six prior community contacts made within the assessment area from 1996 and the Executive Summary of the HUD Consolidated Plan for Edinburg. All of these indicated a need for affordable housing for low- and moderate-income individuals and the rehabilitation of the existing housing stock. Census data indicates there are 128 thousand housing units in the county with 73 thousand owner occupied and 89 thousand 1-4 family units. The median year built is 1976 with a median housing value of \$31,800.

Competition among financial institutions in FNB's delineated community is intense with twenty four banks having branches in the area. The county has five savings and loans, and eight credit unions.

#### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

FNB is performing in an outstanding 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**

The strong 71% loan-to-deposit ratio at September 30, 1996 exceeds the 64% average of ten independent financial institutions located within the assessment area. FNB's average loan-to-deposit ratio for the last twelve quarters is 62%. These ratios are exceptional in relationship to other financial institutions, lending opportunities, demographics, and economic factors present in the assessment area.

#### **Lending in Assessment Area**

A substantial majority of credit is extended within the assessment area. The 1996 Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR) indicates 558 originations, of which 98% were made within the assessment area. The HMDA-LAR tracks home purchase, home improvement, refinancing, and multifamily dwelling loans.

An internal bank report of all consumer unsecured and vehicle secured loans outstanding as of October 31, 1996 indicates 91.8%, are within the assessment area. We substantiated the validity of the HMDA-LAR and bank information by sampling installment, residential, home improvement, construction, and business loan originations.

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

FNB has good distribution of loans to individuals and businesses with different income levels within the assessment area. The 1996 HMDA -LAR indicates 35% of the loans were to applicants in the low-and moderate-income categories. This percentage compares to the county demographics which show 41% of the families fall in these two categories. FNB is an active lender regarding lot development and home construction. A principal category, 1-4 family residential permanent financing, totals \$21,241 thousand and includes loans of all sizes. Loans to purchase vacant lots is also notable at \$1,997 thousand. This category includes loans where low-to-moderate income individuals acquire lots and slowly build their own housing structures, a common practice for low-income families in this area.

The 1994 market share report for HMDA reportable loans reflect FNB ranked 2nd, led only by Texas Commerce Bank for the number of applications in Hidalgo County. Ranking by dollar amount is lower due to the low average loan made by FNB.

The following table reflects the distribution of credit to borrowers of different income levels as reflected by the 1996 HMDA-LAR and by bank coding of consumer loans by applicant income. The sample of 772 unsecured loans and 2,006 vehicle loans represents all loans at the Main Branch and the South Closner Branch, plus 25 loans from each of the other branches located in Hidalgo County.

<b>Lending to Borrowers of Different Income Levels</b>										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographics	21,801 25%		14,605 16%		14,701 17%		37,507 42%		88,614 100%	
Applicant	Low Income		Moderate Income		Middle Income		Upper Income		Total	
Loans in the AA	#	%	#	%	#	%	#	%	#	%

<b>Lending to Borrowers of Different Income Levels</b>										
<b>1996 HMDA-LAR</b>										
Residential loans	46	8%	154	27%	158	28%	202	35%	571	100%
<b>Consumer Sample</b>										
Unsecured Loans	154	20%	175	23%	214	28%	229	30%	772	100%
Vehicle Loans	430	21%	638	32%	478	24%	460	23%	2,006	100%
<b>Commercial Sample</b>										
Revenue Range	<\$100M		\$100M-\$500M		\$500M-\$1MM		>\$1MM		Total	
Loans	55	46%	37	32%	8	7%	18	15%	118	100%

The above chart indicates FNB loans to business's of all sizes. Seventeen of the 118 loans were business start up loans.

### **Geographic Distribution of Loans**

The geographic distribution of loans reflects a reasonable dispersion throughout the MSA assessment area of Hidalgo County. The following table illustrates the level of lending to the various income census tracts:

<b>Geographic Distribution of FNB Loans in Hidalgo County</b>						
Census Tract	#	%	HMDA LAR 1996		Consumer Loans Outstanding	
			#	Loans Originated %	#	%
Low	0	0%	0	0%	0	%
Moderate	19	30%	182	32%	2,040	29%
Middle	27	43%	257	45%	3,502	49%
Upper	17	27%	132	23%	1,548	22%
<b>Total</b>	<b>63</b>	<b>100%</b>	<b>571</b>	<b>100%</b>	<b>7,090</b>	<b>100%</b>

FNB has geocoded all consumer and commercial loans. The geographic distribution reflects excellent penetration throughout the assessment area. FNB has exhibited an excellent record of serving the credit needs of the most economically disadvantaged areas of its assessment area, low-income individuals and very small businesses.

### **Response to Complaints**

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

### **Investments and Services**

We evaluated the level of qualified investments and services made within the assessment area. In order to qualify under CRA, they must meet one or more of the following community development needs: 1) affordable housing for low- or moderate-income individuals; 2) community services targeted to low- or moderate-income individuals; 3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards; or, 4) activities that revitalize or stabilize low- or moderate-income geographies.

FNB is the primary lender to various political subdivisions. In addition to assisting 35 public entities with their deposits and investments, FNB also provides assistance with technology and financial services. This has proved to be of great importance to the smaller, less sophisticated entities. FNB has gone beyond the depository contract agreement to assist financially challenged municipalities, such as loans to the cities of Elsa and Edcouch. FNB's public entity customers have found it more economical to borrow from the bank than to seek other financing methods, such as issuing bonds. Currently, FNB has fourteen loans totaling \$2,098 thousand outstanding to political subdivision entities and 5 loans for \$749 thousand to their subsidiaries such as the Edinburg Economic Development Corporation, Delta Area Development Corporation and the Edinburg Housing Authority.

FNB makes extensive use of innovative, flexible lending practices and participates in special assistance programs, to serve assessment area credit needs. FNB's loan policy does not have a minimum size requirement. Loan officers are provided the flexibility to consider each loan request on a case-by-case basis. Some of these examples are:

- The Elsa branch negotiated with a title company to provide services on home improvement loans, for a flat closing cost of \$550. This fee is well below the normal \$1,200 to \$1,500 cost. The branch has originated 25 home improvement loans totaling \$400 thousand secured by real estate and 67 home improvement loans totaling \$270 thousand, not secured by real estate. Seventeen of the above 92 loans were under \$2,000 and 5 were under \$1,000.
- An affordable Housing Program through the Edinburg Housing Authority (EHA) allowed twenty one families (living in public housing) to acquire their own home. Under this program, EHA sold and financed lots in a subdivision owned by EHA. FNB provided home construction financing for all twenty one families totaling \$515 thousand. Under the program, the County will forgive the lot debt after the fifth year of satisfactory performance.
- The Hidalgo County 1st Time Homebuyer Program assists low income families with funds for closing and down payment requirements. FNB has made nineteen loans totaling \$715 thousand from this program.
- Another Hidalgo County program provides federal grant money for a low income home improvement program. Grants were made available for area contractors to repair qualifying homes. FNB has made four working capital loans totaling \$77 thousand to small business contractors awarded such contracts;
- FNB has financed subdivision projects in a majority of Hidalgo County cities as well as projects outside their city limits. Currently there are thirty eight loans totaling \$12,903 thousand for the purpose of lot or tract development specifically marketed towards low- to moderate-income lot buyers;
- A measure was implemented in 1994 to provide relief to FNB's migrant customer base while they are away from home. Under this measure, FNB's loan platform has the capability to automatically extend a set number of scheduled payments. This measure has served to protect these customers credit rating by minimizing late/non-payment incidents while working outside of the Rio Grande Valley area.

FNB has exhibited excellent responsiveness to credit and community economic development needs. This is demonstrated by:

- Ten loans and commitments totaling \$3,108 thousand, for the purpose of revitalizing the Edinburg downtown area. These loans are for purchase and restoration of properties such as the Golden Jersey Creamery building which had been empty for eight years. It now houses a new restaurant and offers office space; and

- Fourteen loans totaling \$3,181 thousand have been funded at various branches which specifically have stimulated employment or economic growth. One such loan through the Mercedes Economic Development Corporation, provided funds to purchase land. FNB provided construction financing of \$550 thousand as well as operating lines of \$374 thousand.

We reviewed FNB's services for innovativeness, availability, and effectiveness of systems for delivering retail banking services to low- and moderate-income individuals and families. FNB has seven branches and has broken ground for an eighth location, all located within the assessment area. The majority are located in and adjacent to moderate income tracts in accordance with the banks strategic goals of serving the lower economic sector. The branch scheduled to open in May 1997 is located in an upper-income tract on a main roadway between Pharr's lower income neighborhood and Las Milpas, a low- to moderate-income community.

Services and business hours are tailored to the convenience and needs of the assessment area, specifically the low-and moderate-income individuals. The following services and practices are offered:

- All branches offer full service banking including commercial and consumer loans.
- Long lobby hours are maintained at all branches to provide these services. The lobby is open from 9:00AM to 5:00PM Monday through Thursday and Fridays until 6:00PM. Saturday hours are 9:00AM to 12:00 noon.
- A check cashing service was initiated in 1994 at the Elsa branch and later introduced at all branches, due to the large number of individuals who are unable or unwilling to open a basic deposit account. It is FNB's desire to convert these regular customers into economy checking customers through education and continuous reminders of the risk associated with carrying cash. A large portion of the population continues to operate on a cash basis.
- The Elsa branch began taking electric utility payments in April 1994 upon the closing of the local pay station. This service is now available at all branches.
- FNB continues to be a pay station for the County of Hidalgo tax payments. There is no charge for this service.
- An overdraft protection line of credit introduced in 1995 is automatically offered to all customers opening a transaction account. This line is of great help to low-to - moderate income customers who maintain minimal balances, eliminating charges for

incidental overdrafts. Creation of this product has eased the cost/feasibility burden of small balance loans while providing the service.

Many FNB officers serve non-profit organizations and the community in various capacities. They provide technical assistance, counseling and leadership, such as:

- FNB President Robert Gandy also serves as President of the Edinburg Foundation, Inc., which has been instrumental in bringing several new businesses to Edinburg.
- Assisting the Edinburg Chamber of Commerce with a three part small business financing/management seminar and a second business education series.
- Brownsville Branch President Ray Lopez, co-hosts a Spanish radio program where they provide financial advice on how to obtain credit and services at banks or other financial institutions.

FNB's qualified investments and services are supportive of the community's credit needs and provide additional support for the bank's outstanding rating.