



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

## **PUBLIC DISCLOSURE**

**February 24, 2003**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**City National Bank  
Charter Number 16883**

**401 South Kansas  
Weslaco, TX 78599**

**Comptroller of the Currency  
San Antonio South Field Office  
5350 South Staples, Suite 405  
Corpus Christi, TX 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.**

## 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 **City National Bank (CNB)** as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of February 24, 2003. 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**.

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

# DESCRIPTION OF INSTITUTION

City National Bank (CNB) is a community bank located in Weslaco, Texas, about 20 miles east of McAllen, Texas. The bank was founded in 1980 and had total assets of \$81 million as of December 31, 2002. CNB operates one main office and two motor bank branches in Weslaco, Texas. The bank also owns one automatic teller machine that is adjacent to the 400 North Texas Street motor bank. It is a full service bank whose primary focus is serving the city of Weslaco and surrounding communities. Primary lending products include small business loans, loans for home purchases, and home improvement loans.

CNB is a wholly owned subsidiary of Weslaco Bancshares of Delaware, Inc., which is wholly owned by Weslaco Bancshares, Inc., a Texas corporation with assets of \$6.2 million as of December 31, 2002. These two holding companies are the bank’s only affiliates.

As of December 31, 2002, net loans represent 55 percent of CNB's total assets. A summary of the composition of the loan portfolio is as follows:

<b>Loan Portfolio Composition As of December 31, 2002</b>		
<i>Loan Category</i>	<b>\$ (000)</b>	<b>%</b>
Commercial and Commercial Real Estate Loans	26,059	58.8
Residential Real Estate Loans*	7,551	17.0
Construction and Land Development	4,826	10.9
Consumer Loans	3,539	8.0
Other Loans	2,348	5.3
<b>TOTAL</b>	<b>44,323</b>	<b>100.0</b>

\*Home Purchase Loans, Home Improvement Loans, and some Home Refinance Loans

There are no legal, financial, or other factors impeding the bank's ability to meet the credit needs of its AA. The previous CRA Performance Evaluation, dated December 21, 1998, assigned a satisfactory rating to the bank. There have been no changes in the bank’s corporate structure.

# DESCRIPTION OF ASSESSMENT AREAS

## **Cameron County – Brownsville-Harlingen-San Benito, TX Metropolitan Statistical Area (MSA)**

CNB has identified the northwestern portion of Cameron County as an AA. The AA consists of 25 of the 64 census tracts in the Brownsville-Harlingen-San Benito MSA, which is comprised of Cameron County. The AA includes the cities of Harlingen, San Benito, and La Feria. 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 three moderate-income, 13

middle-income, and nine upper-income census tracts. Nine percent of the families in the AA are in the moderate-income tracts, 57 percent in the middle-income tracts, and 34 percent in the upper-income tracts. Twenty nine percent of the households are below the poverty level.

Major employment sectors include services, trade, government, and manufacturing, with emphasis on assembly production. The agriculture sector continues to decline, primarily due to market price fluctuations and the continued urbanization of the area.

CNB faces strong competition in the AA from multinational and regional banking companies, i.e. Wells Fargo, Chase Bank of Texas, Bank of America, and Texas State Bank. International Bank of Commerce-Brownsville, part of a \$6 billion holding company, with \$619 million in assets, also has a significant presence. Three other Rio Grande Valley community banks also have branches in the AA.

### **Hidalgo County – McAllen-Edinburg-Mission, TX (MSA)**

CNB has identified the greater part of Hidalgo County as an AA that includes 61 of the 64 census tracts in the county, which is in the McAllen-Edinburg-Mission MSA. Included in the AA are the cities of Mercedes, Weslaco, Progresso, McAllen, Edinburg, Pharr, Elsa, Mission, and Donna. 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 18 moderate-income, 26 middle-income, and 17 upper-income census tracts. Twenty-six percent of the families in the AA are in the moderate-income tracts, 46 percent are in the middle-income tracts, and 28 percent 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 1990s 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.

CNB's main competitors in the AA are locally based First National Bank of Edinburg, Texas State Bank, Inter National Bank of McAllen, McAllen National Bank, Lone Star National Bank, Alamo Bank, Elsa State Bank and Trust, Rio Bank, and Mercedes National Bank. Branches of Chase Manhattan Bank, International Bank of Commerce, and Frost National Bank offer additional competition.

A summary of basic statistics concerning the two areas is included in the table on the next page.

This office conducted one community contact. We interviewed a senior executive with a local economic development organization. He commented that local banks do a good job in both communities. He also stated that as the economy grows, businesses expand, and "Winter Visitors" increase in the valley area, banks need to conduct more out-reach programs for all sectors of the community. The contact

commented favorably about the performance of all banks in both AAs, including the participation of CNB.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>		
<i>Population</i>	Cameron County (MSA - Brownsville- Harlingen-San Benito, TX )	Hidalgo County (MSA - McAllen-Edinburg- Mission, TX)
Number of Families	26,120	85,761
Number of Households	32,204	100,435
<i>Geographies</i>		
Number of Census Tracts/BNAs	25	61
% Low-Income Census Tracts/BNAs	0	0
% Moderate-Income Census Tracts/BNAs	12	30
% Middle-Income Census Tracts/BNAs	52	43
% Upper-Income Census Tracts/BNAs	36	27
<i>Median Family Income (MFI)</i>		
1990 Census MFI	18,731	17,619
1999 HUD-Adjusted MFI	26,900	27,400
2000 HUD-Adjusted MFI	27,900	28,000
2001 HUD-Adjusted MFI	29,100	29,100
2002 HUD-Adjusted MFI	29,100	29,200
<i>Economic Indicators</i>		
Unemployment Rate-AA December 2002	10.2	13.3
Unemployment Rate-State December 2002	6.2	6.2
Unemployment Rate-National December 2002	6.0	6.0
% of owner occupied housing	57.16	56.97
1990 Median Housing Value	41,474	39,636
% of Households Below Poverty Level	29.39	36.45

# SAMPLING INFORMATION

Our review focused on CNB’S three primary product lines: commercial loans, home mortgage loans, and home improvement loans. We sampled 20 commercial loans where the bank collected income information, and 159 home purchase and home improvements loan 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* analyses, we omitted loans that were made outside of the two AAs. The loans included in the sample originated between January 1, 1999 and December 31, 2002, and were selected at random.

# CONCLUSIONS ABOUT PERFORMANCE CRITERIA

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

## Loan-to-Deposit (LTD) Ratio

CNB’s LTD ratio is reasonable when compared to similar size banks headquartered around Weslaco and in the adjacent county. Refer to the table below.

Institution	Assets as of December 31, 2002 (000s)	Average Quarterly LTD Ratio 3/31/99 – 12/31/02
Mercedes National Bank	40,022	80%
Rio Bank	52,643	66%
McAllen National Bank	107,869	63%
<b>City National Bank</b>	<b>80,951</b>	<b>60%</b>
Elsa State Bank and Trust	118,652	56%
First National Bank of San Benito	84,336	52%

Given its size, primary loan products, and the credit needs of the AA, CNB’s LTD ratio represents a satisfactory responsiveness to the credit needs of both AAs.

## Lending in Assessment Area

A substantial majority of the bank’s lending-related activities are within the AAs. This assessment is based on our sample of commercial loans originating between January 1, 1999 and December 31, 2002 and loans included in the 1999-2002 Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR). Using our loan sample and the HMDA-LAR, we determined that 94 percent and 91 percent of the sampled loans were located within the AAs by number and dollar volume, respectively. The table on the following page shows the bank’s lending activities in and out of the AAs by type of loan

sampled.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home Purchase (Cameron)	2	100	115	100	0	0	0	0
Home Purchase (Hidalgo)	63	95	4,057	96	3	5	165	4
Home Improvement (Cameron)	3	75	12	80	1	25	3	20
Home Improvement (Hidalgo)	85	98	856	99	2	2	13	1
Commercial (Cameron)	3	38	9	2	5	62	386	98
Commercial (Hidalgo)	19	95	899	99	1	5	5	1
Total Reviewed	175	94	5,948	91	12	6	572	9

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

The loan distribution reflects reasonable penetration among businesses 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 home purchase and home improvement loans.

CNB does not market residential real estate loans in the Cameron County area primarily due to stiff local competition. The need for maintenance, room additions, and increasing affordable housing or entry-level housing activities in the McAllen area and the western part of Weslaco, has caused low-income families to begin to enter the market for housing. As noted in the Description of Assessment Areas of this Public Evaluation, the community contact interviewed during our examination indicated a need for more outreach programs by the bank.

<b>Distribution of Borrowers by Income Level Cameron County Period: January 1, 1999 to December 31, 2002</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21		15		17		47	
Loan Type	% of Number	% of Amount						
Home Improvement	0	0	33	25	33	42	34	33
Home Purchase	0	0	0	0	50	25	50	75

<b>Distribution of Borrowers by Income Level Hidalgo County Period: January 1, 1999 to December 31, 2002</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	24		17		16		43	
Loan Type	% of Number	% of Amount						
Home Improvement	20	16	24	14	26	17	30	53
Home Purchase	16	5	14	8	17	22	53	65

We reviewed a sample of commercial loans originating in the Cameron County AA as well as the Hidalgo County AA. Our sample for commercial loans originated between January 1, 1999 and December 31, 2002 suggested an appropriate level of lending to small businesses. The following table illustrates the lending distribution to businesses located within the bank's AAs. A small business is defined as a business with annual revenues of less than \$1 million.

<b>BORROWER DISTRIBUTION OF BUSINESS LOANS (NON-FARM) (CAMERON COUNTY AA)</b>		
Business Revenues	<\$1,000,000	≥\$1,000,000
% of AA Businesses	93	7
% of Bank Loans in AA #	67	33
% of Bank Loans in AA \$	69	31

BORROWER DISTRIBUTION OF BUSINESS LOANS (NON-FARM) (HIDALGO COUNTY AA)		
Business Revenues	<\$1,000,000	≥\$1,000,000
% of AA Businesses	92	8
% of Bank Loans in AA #	85	15
% of Bank Loans in AA \$	83	17

### Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the AAs. Lending efforts in the Cameron County AA are centered in middle- and upper-income census tracts. The bank does not market its lending programs in Cameron County as well as it does in Hidalgo County. The limited marketing effort accounts for the low level of lending in Cameron County.

The low-income and rural areas in the Hidalgo County AA are now beginning to get more affordable and entry-level housing. CNB is working with United States Department of Agriculture in getting affordable housing programs and in the origination of home mortgage lending to low-income families and to families in moderate-income areas of the Hidalgo AA. The tables that follow and on the next page illustrate the lending distribution of the sampled commercial, home improvement, and home purchase loans originated in the AA during the evaluation period.

Distribution of Borrowers by Tract Income Level Cameron County Period: January 1, 1999 to December 31, 2002								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Tracts	0		12		52		36	
% of Owner- Occupied Housing	0		7		58		35	
Loan Type	% of Number	% of Amount						
Home Improvement	0	0	0	0	67	21	33	79
Home Purchase	0	0	0	0	50	12	50	88

<b>Distribution of Borrowers by Tract Income Level Hidalgo County Period: January 1, 1999 to December 31, 2002</b>								
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						
Home Improvement	0	0	17	36	21	39	62	25
Home Purchase	0	0	18	26	19	36	63	38

<b>Distribution of Business Loans (Non-Farm) by Tract Income Level Cameron County</b>								
Census Tract Income Level	LOW		MODERATE (None)		MIDDLE		UPPER (None)	
% of AA Businesses	0		39		18		43	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2002	0	0	0	0	0	0	0	0
2001	0	0	0	0	100	100	0	0
2000	0	0	0	0	0	0	0	0
1999	0	0	0	0	0	0	0	0
Totals	0	0	0	0	100	100	0	0

<b>Distribution of Business Loans (Non-Farm) by Tract Income Level Hidalgo County</b>								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		21		41		38	
LOANS BY YEAR	% of Number	% of Amount						
2002	0	0	5	1	10	2	30	23
2001	0	0	10	8	5	2	15	22
2000	0	0	5	2	5	2	0	8
1999	0	0	5	5	0	0	10	25
Totals	0	0	25	16	20	6	55	78

**Responses to Complaints**

No consumer complaints regarding the bank’s CRA performance were received during this evaluation period.

**Fair Lending Review**

An analysis of 1999, 2000, 2001, and 2002 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the 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 done concurrently with consumer compliance examination dated December 31, 1998.