



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 29, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mercedes National Bank
Charter Number 11879**

**201 S. Texas Avenue
Mercedes, TX 78570**

**Office of the Comptroller of the Currency
San Antonio South Field Office
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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.

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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 Mercedes National Bank, Mercedes, Texas as prepared by **The Comptroller of the Currency**, the institution's supervisory agency, as of October 29, 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.

The lending performance of Mercedes National Bank reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas. Factors supporting the overall rating include:

- The loan-to-deposit ratio exceeds the standards for satisfactory performance. The average loan-to-deposit ratio, for the past thirteen quarters, was 82 percent, which compares favorably with the other similarly situated institution in the assessment area.
- The majority of loan originations, 72 percent of the number and 47 percent of the dollar volume, are within the assessment area.
- The distribution of a sample of loans reflects strong penetration among businesses and farms of different sizes. The distribution of loans to individuals of different income levels is reasonable.
- The geographic distribution of a sample of loans reflects reasonable dispersion throughout the assessment area, given the demographic characteristics of the assessment area.

DESCRIPTION OF INSTITUTION

Mercedes National Bank (MNB) is an independently owned community bank located in Mercedes, Texas. MNB has an automated tell machine on its premises, but does not have any branch offices. MNB is a wholly owned subsidiary of Mercedes Bancorp, Inc., a one bank holding company. MNB has total assets of \$39 million with total loans of \$31.2 million, which represents 80 percent of total assets and 82 percent of total deposits. Lending is centered in residential real estate loans (1-4 family residential loans and residential construction loans), business loans (commercial real estate loans and commercial loans), agricultural loans, and consumer loans.

The previous CRA Performance Evaluation, dated October 8, 1997, reflected a satisfactory rating. There are no legal or other impediments that limit the bank's ability to meet the community's credit needs. The following table depicts the bank's loan portfolio composition as of September 30, 2001.

Loan Composition

Loan Category	\$ (000)	%
Residential Real Estate Loans	9,785	31
Agricultural Related Loans	4,900	16
Residential Interim Construction Loans	5,123	16
Consumer Loans	4,416	14
Commercial Real Estate Loans	4,027	13
Commercial Loans	1,779	6
Other	1,219	4
Total	31,249	100

DESCRIPTION OF THE MNB ASSESSMENT AREA (AA)

MNB's AA includes 14 of the 63 census tracts in the McAllen-Edinburg-Mission metropolitan statistical area. The 14 census tracts include the cities of Mercedes, Weslaco, Progresso, and Donna. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The AA consists of five moderate-income, seven middle-income, and two upper-income census tracts. The distribution of families in the AA, by income level, is as follows: low-income 27 percent, moderate-income 17 percent, middle-income 18 percent, and upper-income 38 percent. The level of households below the poverty level is 41 percent.

The overall economic outlook for the area is positive. The population has been increasing and is projected to continue increasing at a rate of about 2.18 percent over the next 15 years. While unemployment is currently high, the numbers are improving and employment growth is expected. The largest employment sectors in the area are services, commercial and residential

construction, government, retail trade, manufacturing, and agriculture. Significant growth in the services and construction sectors is attributable to the steady population growth. Winter tourism and the “maquiladora” industry have also contributed to employment growth. Government subsidy of agriculture producers also provides support for area farming operations. Major employers in Mercedes include the Mercedes Independent School District and a meat packing company.

We conducted two community contacts with local government offices. Both contacts indicated a need for affordable housing. One contact further indicated that there is a need for government guaranteed loans for local businesses and farms. The assessment area includes 17 other financial institutions within a 10-mile radius of the bank. Sixteen of the 17 institutions are branches of larger banks whose main offices are not located within the AA. Competition is strong. The following table depicts additional AA demographics.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	17,671
Number of Households	20,699
Number of Owner Occupied Household Units / % of Total Household Units	14,806 / 56.77%
<i>Geographies</i>	
Number of Census Tracts/BNA	14
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	36%
% Middle-Income Census Tracts/BNA	50%
% Upper-Income Census Tracts/BNA	14%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$17,619
2001 HUD-Updated MSA MFI	\$29,100
<i>Economic Indicators</i>	
October 2001 Unemployment Rate	10.8%
1990 Median Housing Value	\$31,580
% of Households Below Poverty Level	41%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has demonstrated satisfactory performance in meeting the credit needs of the AA. Our review focused on MNB’s main product lines including: residential loans, small business loans, small farm loans, and consumer loans. To determine the level of residential lending in the bank’s AA, we reviewed all residential loans on the bank’s Home Mortgage Disclosure Act (HMDA) report for 2000 and year-to-date 2001. For other types of loans and for other criteria, we used a random sample as indicated in the following sections.

Loan-to-Deposit Ratio

MNB's loan-to-deposit ratio exceeds the standards for satisfactory performance. As shown in the following table, the average loan-to-deposit ratio over the past thirteen quarters compares favorably with the average reported by a similarly situated bank in the assessment area. Sixteen other financial institution branches are located in the assessment area; however, individual branch loan-to-deposit ratios are not published.

Loan-to Deposit Ratio

Institution	Assets (as of 09/30/01)	Average LTD Ratio
<i>Mercedes National Bank</i>	\$39,028,000	82%
City National Bank - Weslaco, Texas	\$74,568,000	66%

Lending in Assessment Area

A majority of all loan originations are located in the AA. The percentage level of small farm loans located within the AA is low; however, this is reasonable given that small farms are located throughout the Rio Grande Valley area. The low percentage of small farm loans located in the bank's AA does not significantly impact the overall analysis of loans located within the AA. The following table reflects the loans made in 2000 and 2001 by loan category and whether they are located inside or outside of the AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
2000 Residential	67	76%	926	62%	21	24%	579	38%
2001 Residential	6	55%	282	61%	5	45%	180	39%
Consumer	448	78%	3,076	75%	124	22%	1,033	25%
Small Businesses	36	58%	2,776	46%	26	42%	3,221	54%
Small Farms	20	28%	2,087	29%	52	72%	5,128	71%
Total Reviewed	577	72%	9,147	47%	228	28%	10,141	53%

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

Overall, MNB meets the standards for satisfactory performance with a reasonable distribution of loans to individuals of different income levels and to businesses of different sizes.

Our analysis of 62 residential loans with income information available reflected a low percentage of loans to low-income borrowers when compared to the percentage of low-income families in the assessment area. The low percentage is reasonable given that 41 percent of the households in the assessment area are below the poverty level. Based on 2001 HUD-updated metropolitan statistical area median family income of \$29,100, low-income is calculated as income less than \$14,550. This level would make it difficult for borrowers to qualify for housing, especially when the 1990 median housing value in the assessment area was \$31,580.

The following table reflects the bank's residential lending to AA families by income level.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	27%		17%		18%		38%	
LOANS BY YEAR	% of Number	% of Amount						
2000	16%	2%	34%	31%	20%	16%	30%	52%
2001	0%	0%	50%	30%	17%	4%	33%	66%
Total	15%	1%	35%	30%	19%	13%	31%	56%

A sample of 20 consumer loans reflected a low percentage was made to borrowers with low incomes. The level of consumer lending to moderate-income borrowers is satisfactory. The low percentage of loans to low-income borrowers is attributable to the bank's emphasis on residential real estate and agricultural loans. It is also attributable to the high percentage of households below the poverty level. Another contributing factor affecting the percentage is the number of other financial institutions in the area. There are sixteen other banks, or branches of banks, located within a 10-mile radius of the bank. The following table depicts the bank's consumer lending to AA households by income level.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	29%		16%		16%		39%	
	% of Number	% of Amount						
Sample	2%	10%	15%	18%	15%	5%	60%	77%

A sample of 40 business and farm loans reflected strong penetration for businesses and farms with annual revenues less than or equal to \$1 million. The following table reflects the bank's lending to AA small businesses/farms by total revenues.

BORROWER DISTRIBUTION OF SMALL BUSINESSES AND FARMS IN THE AA		
Total Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses/Farms	93%	7%
% of Bank Loans in AA #	93%	7%
% of Bank Loans in AA \$	88%	12%

Geographic Distribution of Loans

The overall geographic distribution of sampled loans in the AA is reasonable. The following tables reflect that the distribution is comparable to the demographic data. The samples used to determine geographic distribution are the same samples used to evaluate lending to borrowers of different incomes and businesses of different sizes.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0%		35%		50%		15%	
	% of Number	% of Amount						
2000 HMDA	0%	0%	57%	40%	30%	36%	13%	24%
2001 HMDA	0%	0%	50%	30%	33%	35%	17%	35%

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0%		36%		47%		17%	
	% of Number	% of Amount						
Sample	0%	0%	45%	35%	40%	46%	15%	19%

SMALL FARM & SMALL BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses/ Farms	0%		31%		38%		31%	
	% of Number	% of Amount						
Sample	0%	0%	48%	61%	31%	32%	21%	7%

Responses to Complaints

MNB has not received any complaints regarding its CRA performance during this evaluation period.

Fair Lending Review

An analysis of 1997 through 2001 public comments, consumer complaint information, and HMDA 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 exam was performed in 1997.