



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**July 24, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Texas National Bank  
Charter Number 11879**

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

**Comptroller of the Currency  
San Antonio South  
10101 Reunion Place Boulevard, Suite 402  
San Antonio, TX 78216**

**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.**

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

Texas National Bank's lending performance reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas.

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, market focus, and lending opportunities available in the assessment area.
- A majority of loans in our loan sample were made to borrowers within the bank's assessment area.
- The distribution of loans to individuals of different income levels is good with a reasonable penetration of loans to low- and moderate-income individuals.
- The geographical distribution of the bank's lending effort reflects reasonable dispersion throughout the assessment area.
- There have been no consumer complaints regarding the bank's CRA performance during this evaluation period.

## **DESCRIPTION OF INSTITUTION**

Texas National Bank (TNB) is an independently owned community bank located in Mercedes, Texas. The bank has an automated teller machine on its premises, but does not have any branch offices. TNB is a wholly owned subsidiary of MNB Ventures, Inc., a one bank holding company, which purchased the bank in May 2005. Assets of the holding company are largely limited to the bank. TNB formerly operated under the name Mercedes National Bank but changed its name in early 2006. The bank has total assets of \$44 million with total loans of \$34 million, which represent 77 percent of total assets and 88 percent of total deposits. Lending is centered in residential, commercial, and agricultural loans. Consumer loans are also a key part of the lending effort.

Our previous CRA Performance Evaluation, dated October 8, 2001, 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 table on the following page depicts the bank's loan portfolio composition as of June 30, 2006.

LOAN COMPOSITION (6/30/06)	\$ (000)	%
Agricultural Related Loans	9,918	29
Residential Loans	8,591	25
Commercial Real Estate Loans	6,025	18
Commercial Loans	4,705	14
Consumer Loans	2,635	8
Construction, Land Development Loans	2,236	6
<b>Total</b>	<b>34,110</b>	<b>100</b>

## DESCRIPTION OF HIDALGO COUNTY

The bank has designated Hidalgo County, Texas as its assessment area (AA). The county, located in the Rio Grande Valley in South Texas, has also been designated as the McAllen-Edinburg-Mission Metropolitan Statistical Area (MSA) by the Census Bureau. The county also includes the cities of Pharr, Weslaco, Mercedes, and a number of other small cities. Mercedes is located in eastern Hidalgo County, 20 miles east of McAllen and 20 miles west of Harlingen, Texas. The city had a population of 13,649, according to the 2000 Census. The county has experienced very rapid population growth in recent years, much of it from international migration. Its population was estimated by the Census Bureau to be 678,275 in 2005, having grown 19% since the 2000 Census. The population had grown 49 percent in the 1990's. Unemployment is relatively high at 7.8 percent and roughly one third of households are below the poverty level.

The economy of the AA is relatively diverse with employment centered mostly in services such as retailing and food preparation as well as other small business employment and government. Trade with Mexico is also a key source of economic activity. Major employers include the McAllen and Edinburg Consolidated Independent School Districts, county and city governments, and the University of Texas-Pan American. Additional demographic and economic characteristics of the AA are presented in a table on the following page.

TNB's banking competition includes several independent community banks, but most of them, like First National Bank Edinburg and Lone Star National Bank, are relatively large, multi-branch institutions. The AA also has branches of larger regional institutions, including Laredo National Bank, International Bank of Commerce, and Bank of America.

Our office conducted one community contact with a local government official. The contact noted that considerable growth is expected in the Mercedes area in the near future including a shopping mall currently under construction on U.S. Highway 83, and noted there will be increased lending needs in the community associated with this growth. The contact indicated local institutions were doing a reasonable job of meeting the needs of the community.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA		
Population		
Number of Families		133,186
Number of Households		156,708
Geographies		
Number of Census Tracts/BNAs		80
% Low-Income Census Tracts/BNAs		0
% Moderate-Income Census Tracts/BNAs		28
% Middle-Income Census Tracts/BNAs		48
% Upper-Income Census Tracts/BNAs		24
<i>Median Family Income (MFI)</i>		
2000 MFI for AA		\$28,373
2006 HUD-Adjusted MFI		\$30,000
2005 HUD-Adjusted MFI		\$30,000
2004 HUD-Adjusted MFI		\$30,000
2003 HUD-Adjusted MFI		\$28,700
2002 HUD-Adjusted MFI		\$29,200
Economic Indicators		
Unemployment Rate-AA June 2006		7.8%
Unemployment Rate-State May 2006		7.0%
Unemployment Rate-National April 2006		7.0%
2000 Median Housing Value		\$49,916
% of Households Below Poverty Level		32%

## SAMPLING INFORMATION

Our review focused on three primary loan products: residential real estate; commercial loans; and consumer loans. The bank's residential real estate products consist of home purchase, refinance, home equity, and home improvement loans. Using information submitted by the bank in compliance with the Home Mortgage Disclosure Act, we sampled 70 residential loan originations. We also sampled 25 commercial loans and 25 consumer loans. For the *Lending to Borrowers of Different Incomes and Businesses of Different Sizes*, and *Geographic Distribution of Loans* analyses, we omitted loans made outside of the AA. The loans included in the sample originated between January 1, 2002, and June 30, 2006, and were selected at random. Consistent with supervisory guidelines, originations made in 2002 were assessed using 1990 Census data. The remaining 2003 through 2006 originations were assessed using 2000 Census data.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit (LTD) Ratio

The bank's average net LTD ratio is considerably higher than other banks in the AA. There are no other banks under \$100 million in total assets with no branch offices in the AA, but the bank's ratio is higher than several larger, multi-office banks. We compared the bank's average ratio to two larger banks in the AA that have total assets between \$100 and \$150 million.

It should be noted that those banks, Elsa State Bank and Rio Bank, each have five offices which allow them to better meet loan demand over a broader area. TNB on the other hand has only one office, but its overall loan levels are significantly higher. TNB's net LTD ratio averaged 87.26 percent since December 31, 2001. Elsa State Bank's ratio averaged 65.01 percent since that time. Rio Bank's ratio averaged 78.90 percent.

Institution	Assets (as of 6/30/06)	Average LTD Ratio
Texas National Bank, Mercedes, Texas	\$44,352,000	87%
Elsa State Bank, Elsa, Texas	\$146,704,000	65%
Rio Bank, Mc Allen, Texas	\$116,346,000	79%

### Lending in Assessment Area

A majority of the bank's lending-related activities are within the AA. We determined that 81 percent of our sampled loans by number (or 73 percent by dollar volume) were made to borrowers located within the designated AA. Of our commercial sample, 84 percent by number (21 out of 25) and 82 percent by dollar amount were in the AA. In our consumer sample, 88 percent by number (22 out of 25) were in the AA. The following table shows the bank's lending activities in and out of the AA by type of loan sampled. This reflects a reasonable record of affording credit within the AA.

LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	21	84	2,054	82	4	16	436	18
Residential	54	77	2,374	66	16	23	1,202	34
Consumer	22	88	181	84	3	12	35	16
<b>Total Reviewed</b>	<b>97</b>	<b>81</b>	<b>4,609</b>	<b>73</b>	<b>23</b>	<b>19</b>	<b>1,673</b>	<b>27</b>

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

TNB demonstrates reasonable penetration when lending to businesses of different sizes and to individuals with different income levels. The wide distribution of loans to borrowers with varying income levels reflects favorably on the bank's lending effort. The following tables summarize the distribution of TNB's lending for commercial, residential, and consumer loans.

TNB's record of lending to businesses with gross annual revenues less than \$1 million is comparable to the demographics of the assessment area. The bank made 92 percent of the 25 commercial loans sampled to businesses with gross annual revenues of less than \$1 million. The following table shows TNB's record of commercial lending.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93	7
% of Bank Loans in AA #	92	8
% of Bank Loans in AA \$	80	20

Although residential penetration to low income families is poor, it should be noted that the median family income for the AA is relatively low and families designated as low-income within the area have annual incomes of \$15,000 or less (using the most recent 2005 median income). This low income level reduces the bank's ability to reach these borrowers for significant residential related lending. The bank's record of consumer lending to low income is favorable as reflected in the lower table. The level of residential lending to moderate income borrowers is comparable to proportions within the community.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	23%		17%		18%		42%	
LOANS BY YEAR	% of Number	% of Amount						
2005	7%	7%	0%	0%	29%	25%	64%	68%
2004	0%	0%	14%	25%	57%	49%	29%	26%
2003	0%	0%	25%	15%	17%	5%	58%	80%
2002*	0%	0%	12%	6%	35%	30%	53%	64%
Total	2%	1%	15%	10%	39%	25%	44%	64%

\* Consistent with supervisory guidelines, our 2002 residential sample was analyzed using the income distribution of families within the AA using 1990 Census data. As reported in that Census, 25 percent of families were considered low income, 16 percent moderate income, 17 percent middle income and 42 percent upper income.

Consumer lending activities reflect a reasonable effort to lend to lower income borrowers. By number, consumer loans sampled were made to various income groups in numbers closely matching the proportion of those groups within the community. For example, by number, 28 percent of consumer loans sampled were to low income households, which account for 25 percent of the households within the AA. However, due to the limited ability of low income borrowers to service larger notes, the loans made to low and moderate income borrowers tend to be smaller, and for that reason a large portion of the dollar amount of the sample was to upper income borrowers.

DISTRIBUTION OF BORROWERS BY INCOME LEVEL CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Household	25		16		17		42	
LOANS BY YEAR	% of Number	% of Amount						
2006- 2002	28	17	12	6	16	3	44	74

### Geographic Distribution of Loans

The overall geographic distribution of sampled loans in the AA is reasonable. The following tables reflect a lending distribution comparable to the proportions of various geographies within the AA. There are no low income areas in the assessment area. Lending is somewhat centered in middle income tracts in the Mercedes area where the bank's one office is located, but no strong concentration in upper income areas. This is apparent in the residential loan sample detailed in the table below. Lending to moderate income areas was proportional to housing in those areas in every year but 2004.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0%		28%		48%		24%	
	% of Number	% of Amount						
2005 HMDA	0%	0%	22%	27%	71%	68%	7%	5%
2004 HMDA	0%	0%	0%	0%	100%	100%	0%	0%
2003 HMDA	0%	0%	29%	13%	57%	61%	14%	26%
2002 HMDA*	0%	0%	47%	50%	32%	23%	21%	27%

\* Consistent with supervisory guidelines, our 2002 residential sample was analyzed using the geographical distribution of owner occupied housing from the 1990 Census. As reported in that Census, 24 percent of housing was in moderate income tracts, 49 percent in middle income tracts and 27 percent in upper income tracts. There were no low income tracts.

Our consumer sample indicated consumer lending to be centered in middle income census tracts around the Mercedes, Texas area, where the bank's one office is located. Lending in upper and moderate income areas was below the proportion of households in those areas, but still shows a reasonable effort throughout the area.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0%		27%		47%		26%	
	% of Number	% of Amount						
Sample	0%	0%	16%	9%	72%	78%	12%	13%

The commercial loan sample also showed some concentration in the middle income areas around Mercedes.

SMALL BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0%		19%		41%		40%	
	% of Number	% of Amount						
Sample	0%	0%	12%	6%	52%	47%	36%	46%

### Responses to Complaints

TNB has not received any complaints specific to its CRA performance during this evaluation period.

### Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.