

# **PUBLIC DISCLOSURE**

April 19, 1999

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Harlingen National Bank  
Charter Number 14776**

**115 East Van Buren  
Harlingen, Texas 78551**

*Supervisory Office:*

**Office of the Comptroller of the Currency  
San Antonio South Field Office  
9601 McAllister Freeway, Suite 200  
San Antonio, Texas 78216-4605**

**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 **Harlingen National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **April 19, 1999**. 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**”.

Harlingen National Bank is responsive to the credit needs of their community including low- and moderate-income individuals and areas, and small businesses. This is evidenced by the following:

- ! The loan-to-deposit ratio is reasonable given the bank’s size, financial condition, and credit needs of the assessment area (AA). The bank’s loan-to-deposit ratio has averaged 64.7 percent for the past eleven quarters and compares favorably with similarly situated institutions in the AA.
- ! A majority of the bank’s loans are made within the AA which encompasses Cameron County and the eastern portion of Hidalgo County.
- ! There is a reasonable distribution of loans granted to borrowers of different income levels and businesses of different sizes.
- ! The geographic distribution of loans reflects satisfactory dispersion throughout the AA.
- ! The bank has satisfactorily responded to consumer complaints since the prior evaluation period.

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

<b>SMALL INSTITUTION ASSESSMENT CRITERIA</b>	<b><u>INTER 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		U	
Lending in Assessment Area		U	
Lending to Borrowers of Different Incomes and to Businesses of Different sizes		U	
Geographic Distribution of Loans		U	
Response to Complaints	The bank has satisfactorily responded to complaints since the prior evaluation period.		

## DESCRIPTION OF INSTITUTION

Harlingen National (HNB) is a commercial bank with a main office and three branch locations in Harlingen, Texas which is in Cameron County. HNB also has a branch in nearby La Feria, Texas which is Cameron County and a fifth branch in Mercedes, Texas which is in Hidalgo, County. The La Feria branch, the Mercedes branch, and one of the Harlingen branches are the result of an acquisition of First National Bank of La Feria in 1998. A second branch location in La Feria was closed subsequent to the acquisition. All locations have automated teller machines (ATM) with seven additional stand alone ATM's located in the assessment area (AA). As of December 31, 1998, HNB has total assets of \$225 million with \$124 million, or 55 percent, of assets in net loans.

HNB also has seven loan production offices (LPOs) located in the cities of Harlingen, Brownsville, Abilene, Midland, Odessa, Boerne, and Marble Falls, Texas. All of the loans generated by these LPOs are 1-4 family residential real estate which are sold on the secondary market.

The bank offers a wide range of deposit services and credit products. Loans which benefit low- and moderate-income individuals/areas include apartment complexes, rehabilitation loans, consumer loans, home loans, and commercial loans. HNB received a **satisfactory** rating at the prior CRA evaluation dated June 14, 1996.

Type of Loans	Amount \$ (000's)	Percentage
Commercial Real Estate	41,790	33%
1-4 Family Residential	34,311	27%
Commercial	20,848	17%
Consumer	19,121	15%
Agricultural	8,361	7%
Other	498	1%
Total	124,929	100%

There are no legal or other impediments which limit the bank's ability to help meet the community's credit needs. HNB is 100 percent owned by HN Bancshares of Delaware, Inc., a one bank holding company which is wholly owned by Harlingen Bancshares, Inc. There are no other subsidiaries or affiliates.

## **DESCRIPTION OF ASSESSMENT AREA**

Harlingen National Bank's assessment area (AA) consists of Cameron County and nine census tracts in the eastern portion of Hidalgo County in close proximity to their Mercedes Branch. Cameron County comprises Metropolitan Statistical Area (MSA) number 1240 which includes the cities of Harlingen and Brownsville. Those census tracts in Hidalgo County are in MSA number 4880. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income census tracts (CTS).

According to the 1990 U.S. Census, the population of the AA is 304 thousand. Each year, the Department of Housing and Urban Development updates the median family income. The 1998 median family income for the AA was \$25,588. There are 70,783 families in the AA. The income levels of these families are distributed as follows: 25 percent low, 17 percent moderate, 17 percent middle, and 41 percent upper income. Thirty six percent of the households in the AA are below the poverty level. The median housing value is \$43,250 with owner occupied representing 53 percent of the units. The AA has only one low-income census tract which represents one percent of the CTS in the AA. There are 22 (31 percent) moderate-income, 29 (41 percent) middle-income, and 19 (27 percent) upper-income CTS. The income levels of two CTS are not defined.

The local economy is dependent upon agriculture, tourism, medical, light manufacturing, local government, and retail businesses. Major employers include the Valley Baptist Medical Center, Harlingen Consolidated Independent School District, Fruit of the Loom, William J. Carter Company, and H.E.B. An economic boost is anticipated with the opening of the University of Texas Medical School at the Valley Baptist Medical Center. The unemployment rate at the end of 1998 was estimated at slightly over 12 percent. HNB's primary competitors include seven banks in the AA ranging in size from \$32 million in assets to \$829 million.

We conducted one community contact with the local chamber of commerce. We also reviewed one prior community contact with a local government official near their Mercedes branch location. These contacts indicated the need for small business loans. One contact felt an under served sector of the housing market is affordable housing for retired individuals (ie "Winter Texans").

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

HNB is satisfactorily meeting the credit needs of its AA, including low- and moderate-income individuals and areas, consistent with its resources and capabilities.

## Loan-to-Deposit Ratio

HNB meets the standards for satisfactory performance with an average loan-to-deposit ratio for the last eleven quarters of 64.7 percent. This ratio was lowered slightly in 1998 due to the acquisition of First National Bank of La Feria and was 61.3 percent as of December 31, 1998. The loan-to-deposit ratio is reasonable, and compares favorably with other banks in the AA. A comparative performance analysis dated December 31, 1998 indicates the average loan-to-deposit ratio of the other seven banks located in the AA is 55.1 percent. The loan-to-deposit ratios for these six banks ranged from a high of 75.3 percent to a low of 34.3 percent.

## Lending in the Assessment Area (AA)

HNB meets the standards for satisfactory performance in lending within its AA. A substantial majority of the bank's consumer and commercial loans are extended within the AA.

Our review included a sample of 24 consumer loans made during February 1999 and 20 commercial loans originating within the last six months. We also reviewed all of the loans reported on the Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR).

The bank has seven loan production offices, five of which are located outside the AA. This business decision results in a high volume of residential mortgages which are originated outside the AA and sold on the secondary market. During 1998, the HMDA-LAR reflected 1,625 originations totaling \$108 million. The bank reported that 506 of these loans were within their AA totaling \$15.7 million. This represents 31 percent by number and 15 percent of the dollar amount of HMDA-LAR loans which were within their AA. Excluding the loans originated by the five LPOs outside the AA, these ratios would have been 87 percent and 89 percent by number and dollar volume, respectively.

The following table reflects the bank's record of lending within the AA:

Loans Originated in the Assessment Area				
Loan Type	Number	Percent	\$ 000	Percent
HMDA-LAR	506	31%	\$15,729	15%
Consumer Sample	24	100%	\$53	100%
Business Sample	19	95%	\$2,412	98%

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

HNB's primary product lines consist of commercial and commercial real estate, 1-4 family residential, and consumer loans. The bank meets the standards for satisfactory performance of these criteria with a reasonable distribution of loans to individuals with different income levels and businesses of different sizes within the AA.

Our review of the 1998 HMDA-LAR indicates the level of residential loans reasonably coincides with the demographic distribution of low- and moderate-income households. Likewise, our sample of 24 consumer loans originating in February 1999 reflects a strong penetration of loans to low- and moderate-income individuals.

The following table reflects the distribution of credit to borrowers of different income levels in the AA as reported in the 1998 HMDA-LAR and revealed in our sample of consumer loans. Fifteen of the loans in the AA did not have income information and are not included below.

<b>Lending to Borrowers of Different Income Levels</b>										
	<b>Low Income Families</b>		<b>Moderate Income Families</b>		<b>Middle Income Families</b>		<b>Upper Income Families</b>		<b>Totals</b>	
<b>Area Demographic Characteristics</b>	<b>25%</b>		<b>17%</b>		<b>17%</b>		<b>41%</b>		<b>100%</b>	
<i>By Number</i>	#	%	#	%	#	%	#	%	#	%
<b>Loan Type</b>										
<b>HMDA-LAR</b>	68	14%	89	18%	80	16%	254	52%	491	100%
<b>Consumer</b>	9	37%	4	17%	5	21%	6	25%	24	100%

As shown in the table below, a majority of our sample of commercial loans originating in the past six months, were made to businesses with revenues of less than \$1 million.

<b>Lending to Businesses of Different Sizes</b>										
<b>Revenue Ranges</b>	<b>&lt;\$100 thousand</b>		<b>\$100 - \$500 thousand</b>		<b>\$500 - \$1,000 thousand</b>		<b>&gt; \$1,000 thousand</b>		<b>Total</b>	
<i>By Number</i>	#	%	#	%	#	%	#	%	#	%

<b>Business Loans</b>	1	5%	6	30%	3	15%	10	50%	20	100%
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### Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion of loans throughout the AA and meets the standards for satisfactory performance. We based our conclusion on the distribution of HMDA-LAR reportable loans in 1998 and our sample of 24 consumer loans as shown in the table below.

<b>Lending in Areas of Different Income Levels within the Assessment Area</b>										
	<b>Low Income Areas</b>		<b>Moderate Income Areas</b>		<b>Middle Income Areas</b>		<b>Upper Income Areas</b>		<b>Total</b>	
	#	%	#	%	#	%	#	%	#	%
<b>Census Tracts</b>	1	1%	22	31%	29	41%	19	27%	71	100%
<b>Loan Types</b>										
<b>HMDA-LAR</b>	0	0	88	17%	283	56%	135	27%	506	100%
<b>Consumer</b>	0	0	7	29%	13	54%	4	17%	24	100%

While no loans were identified in the one low income census tract, this census tract is located in the downtown business area of Brownsville, Texas. It is reasonable to assume that residential and consumer loans located in this census tract would be nominal.

The dollar distribution is also reasonable with six percent in moderate- income, 46 percent in middle-income, and 48 percent in upper-income CTS. Likewise, our consumer sample reflected 21 percent of the dollar volume of consumer loans were in moderate-income CTS. Sixty percent were in middle-income and 19 percent were in upper-income tracts by dollar volume.

### Response to Complaints

During this evaluation period, HNB satisfactorily responded to consumer complaints. One consumer complaint was noted which related to debt collection techniques on a loan in bankruptcy. This complaint is presently in litigation.

Based on our fair lending review, no substantive violations of the antidiscrimination laws and regulations were identified. No practices were detected which are intended to discourage applicants from applying for the types of credit offered.