



Comptroller of the Currency
Administrator of National Banks

SMALL BANK

PUBLIC DISCLOSURE

July 15, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Rio National Bank
Charter Number 18554

1655 N. 23rd Street
McAllen, Texas 78502

Supervisory Office:

Office of the Comptroller of the Currency
San Antonio South Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, Texas 78216-4160

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 **Rio National Bank, McAllen, Texas**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **July 15, 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**”.

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

- ! The loan-to-deposit ratio, which has averaged 68 percent over the past nine quarters, is reasonable given Rio’s size, financial condition, and credit needs of its assessment area. The ratio is comparable to similarly situated institutions in the assessment area.
- ! The number and dollar volume of loans made inside the bank’s assessment area are reasonable and exceed the standards for satisfactory in addressing the credit needs of the community.
- ! The distribution of borrowers reflects satisfactory penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- ! The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- ! There have been no consumer complaints, regarding the bank’s CRA performance, filed during this evaluation period.

DESCRIPTION OF INSTITUTION

Rio, an independent \$37 million institution, has both its main office and full service branch in McAllen, Texas. The branch opened in October 1997 and includes the bank's only automated teller machine. The bank offers a variety of loan and deposit products. There are no legal, financial, or other factors that impede the bank's ability to meet the credit needs of its assessment areas. The previous CRA examination, dated May 21, 1997, resulted in a "Satisfactory" rating.

Net loans are \$24 million and represent about 64 percent of total assets at June 30, 1999. Rio offers a wide range of deposit and credit products. The following table provides a breakdown of Rio's loan portfolio:

Type of Loans	Amount \$ (000's)	Percentage
Motor Vehicles	9,969	38%
NonFarm/NonResidential	3,715	14%
Commercial/Industrial	2,539	10%
Multi-Family Residential	985	4%
1-4 Family Residential	4,012	15%
Other Consumer	3,637	14%
Used Car Floor Plans	1,107	4%
Agricultural	123	1%

DESCRIPTION OF THE ASSESSMENT AREA

Rio designates Hidalgo County, in its entirety, as its assessment area (AA). Hidalgo County borders Mexico and is across from the Mexico border city of Reynosa which has an estimated population of one million. Reynosa is home to more than 100 maquiladoras, which are production facilities that process or assemble components into finished products. Competition among financial institutions in the assessment area is strong. These institutions include other national banks, three state banks, a savings bank, various credit unions, and numerous finance companies. The AA is described further as the McAllen-Edinburg-Mission Metropolitan Statistical Area (MSA). It includes 63 contiguous census tracts (CTs), which are further described as nineteen (30 percent) moderate-, twenty-seven (43 percent) middle-, and seventeen (27 percent) upper-income CTs. There are no low-income CTs in Hidalgo County. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- and moderate-income geographies.

The 1990 U.S. Census reported a population of 383,545 and a statewide MSA median family income (MFI) of \$17,619 for the AA. According to the Department of Housing and Urban Development (HUD) annual update, the 1999 MFI is \$27,400. The local economy is strong. Major employers include wholesale/retail trade businesses, government entities, and service industries. As of May 1999¹, the Texas Workforce Commission reports that Hidalgo County had an unemployment rate of 13 percent.

By income level, families in the AA include 25 percent low-, 16 percent moderate-, 17 percent middle-, and 42 percent upper-income. Demographic data indicates 37 percent of the households are below the poverty level. At the 1990 U.S. Census, the average median housing value was reported as \$38,999. The local tax appraisal district calculates and certifies the average appraised value for all single-family residences in the district each year. In July 1999, the average appraised value for all single-family residences in the city of McAllen was \$67,491.

The local economic development corporation reported the average price for all single-family residences constructed in 1997 was \$88,500. The average price for single-family residences constructed in 1998 rose to \$94,500. The high poverty level, coupled with the rising costs of new construction, could make it difficult for a number of low- and moderate-income families to have the ability to pay the necessary down payment and closing costs to purchase a newly-constructed home.

We conducted one community contact with a local community development organization. Earlier this year, a community contact was performed in conjunction with an examination of another national bank located in McAllen. All contacts indicated the credit needs in the community were met by the various financial institutions. One contact stated the community's primary needs were affordable owner-occupied housing and small business loans. The other contact confirmed these were needs of the community. Both contacts stated banks within the McAllen area are active within the community and provide needed community services.

SAMPLING INFORMATION

Examiners used loan samples to assist in evaluating three of the five performance factors. Our loan sample consisted of loans that originated between January 1, 1998 and June 30, 1999. The bank's loan portfolio is diversified among consumer, residential real estate, and commercial loans. Examiners evaluated these types of loans with respect to performance factors. One hundred one loans, totaling \$3 million, were sampled and consisted of 50 consumer, 39 residential real estate, 1 farm, and 11 commercial loans.

¹ The Texas Workforce Commission noted the state unemployment rate was 4.6 percent and the United States unemployment rate was 4.0 percent for the same time frame.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Rio satisfactorily meets the credit needs, as identified by the community contacts, of its AA, including low- and moderate-income individuals and small businesses, consistent with its resources and capabilities.

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

Rio meets the standards for satisfactory performance of this criteria with good penetration of loans to low- and moderate-income individuals and small businesses. Rio's primary product lines consist of consumer and small business loans.

Our loan sample indicated the distribution of borrowers reflects a reasonable penetration among individuals of different income levels and business of different sizes. We concentrated on the number of loans, as it is reasonable that lower-income families are likely to borrow smaller dollar amounts than upper-income families. The same would be true for commercial loans, as larger businesses generally require a higher lending base than smaller businesses. Our sample included the only agricultural loan made during the time frame reviewed. The distribution generally reflects the income characteristics of the AA. A comparison of our loan sample to the AA demographic data is detailed in the tables below. Where indicated, dollars are in thousands.

Loan Sample Distribution by Income Group - Hidalgo County Assessment Area										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total # of Families	
Area Demographic Characteristics	25%		16%		17%		42%			
# of Families	21,797		14,605		14,704		37,509		88,615	
Loan Type	#	%	#	%	#	%	#	%	#	%
Consumer	12	24	10	20	15	30	13	26	50	100
Residential	4	10	9	23	7	18	19	49	39	100
Total	16	18	19	21	22	25	32	36	89	100
Loan Type	\$	%	\$	%	\$	%	\$	%	\$	%
Consumer	43	15	52	18	98	33	103	35	296	100
Residential	34	2	103	7	269	19	987	71	1,393	100

Total	77	5	155	9	367	22	1,090	88	1,689	100		
Lending to Businesses and Farms of Different Sizes - Hidalgo County Assessment Area												
Revenue (000's)	<\$100		\$100-\$250		\$250-\$500		\$500-\$1,000		>\$1,000		Totals	
	#	%	#	%	#	%	#	%	#	%	#	%
Businesses	2	18	2	18	3	27	1	9	3	27	11	100
Farms	0	0	0	0	0	0	1	100	0	0	1	100
Total	2	17	2	17	3	25	2	17	3	25	12	100
Loan Type	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Businesses	43	3	123	8	696	47	259	18	351	24	1,472	100
Farms	0	0	0	0	0	0	210	14	0	0	210	100
Total	43	3	123	8	696	47	469	32	351	24	1,682	100

! Geographic Distribution of Loans

Rio has a reasonable geographic distribution of lending throughout its assessment area. We compared the percentage of loans made at each income level to the percentage of census tracts within the assessment area at each income level. The penetration of loans in the moderate-income census tract looks low. However, this penetration is skewed by the number of residential real estate and commercial loans. Rio makes a limited number of these loans, 15 and 24 percent, respectively.

Fifty-six percent of the bank's loan portfolio is comprised of consumer loans. If only the consumer loans selected for our sample were used, the percentage for the number of loans in the moderate-income census tract would be 22 percent. Based on this percentage, the geographic distribution of loans reflects an adequate penetration throughout the assessment area. Our sample included 101 consumer, residential real estate, and commercial loans originating between January 1998 and June 30, 1999 and totaling \$3 million. The following table illustrates the distribution of sampled loans:

Geographic Distribution of Sampled Loans			
Income Tract Profile	Distribution of Assessment Area Census Tracts by Number	Rio Bank's Distribution by Number of Loans	Rio Bank's Distribution by Dollar of Loans

Geographic Distribution of Sampled Loans			
Low-Income Tracts	0%	0%	0%
Moderate-Income Tracts	30%	18%	18%
Middle-Income Tracts	43%	49%	40%
Upper-Income Tracts	27%	25%	26%
Totals	100%	92%	84%
Tracts Outside Assessment Area		8%	15%

! Loan to Deposit Ratio

Rio's loan to deposit ratio meets the standard for satisfactory performance and is comparable to other similarly-situated institutions in the area. These institutions are located in Hidalgo County and have total assets less than \$250 million. At June 30, 1999, Rio's loan-to-deposit ratio was 71 percent. Since the prior CRA examination of May 1997, the quarterly average was 68 percent and ranged from 65.9 percent to 71.4 percent. The average loan-to-deposit ratio for the seven comparable banks in the AA using the same time frame was 63.5 percent. The quarterly ratios for the seven banks ranged from 44.6 percent to 79.8 percent.

! Lending in the Assessment Area (AA)

Rio exceeds the standards for satisfactory performance with a significant majority of loans extended within the AA. A review of a sample of residential, consumer, and commercial loans originated in 1998 and 1999 indicated a substantial percent of the number and dollar volume were extended within the AA. The table below shows loans made in the AA by loan type.

Loans in Hidalgo County Assessment Area				
Loan Type	Number	Percent	Amount (000's)	Percent
Residential	39	98	1,393	99
Consumer	50	84	227	77
Commercial	12	91	1,437	73
TOTALS:	101	91	3,057	83

! Response to Complaints

Rio has not received any complaints or public comments regarding its CRA performance during this evaluation period.

! Other

Based on the loans in our sample, we did not identify any violations of substantive provisions of the anti-discrimination laws and regulations. No practices were detected that would discourage applicants from applying for the types of credit offered. This document does not purport to describe all the information that may be pertinent to the bank's activities in, and service to, its community. The reader is encouraged to contact Rio National Bank for more information and/or to review its CRA Public File. The bank's address is listed on the front of this document. The telephone number is (956) 681-7890.