



PUBLIC DISCLOSURE

April 27, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Lone Star National Bank
Charter Number 17611**

**100 West Ferguson
Pharr, TX 78577-1127**

**Office of the Comptroller of the Currency
San Antonio South Duty Station
5350 South Staples, Suite 405
Corpus Christi, Texas 78411**

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 **Lone Star National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of April 27, 1998. 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.

Lone Star National Bank is responsive to the community's credit needs, including low- and moderate-income individuals and areas. This is demonstrated by:

- A more than reasonable loan-to-deposit ratio given the economic and lending opportunities available in the assessment area and the bank's financial condition. The loan-to-deposit ratio was 78% as of March 31, 1998 and averaged 72% for the last 6 quarters.
- A substantial majority of loans and other lending related activities are extended within the assessment area.
- Credit is well distributed to borrowers of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects satisfactory dispersion throughout the assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Lone Star National Bank</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	✓		
Lending in Assessment Area	✓		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		✓	
Geographic Distribution of Loans		✓	
Response to Complaints	No complaints were received since the prior CRA examination.		

DESCRIPTION OF INSTITUTION

Lone Star National Bank (LSNB) is retail oriented with headquarters in Pharr, Texas, two branches in McAllen, Texas, and one branch in Mission, Texas. The 10th Street McAllen branch opened in April 1996, and the Mission branch opened in April 1997. Automatic teller machines are located at all of the offices. Each branch features a full service lobby and a drive-up facility. A mortgage center, opened in 1994, is located adjacent to the 10th Street, McAllen branch. LSNB has opened one branch since the last CRA evaluation in October of 1996. A satisfactory rating was received at that evaluation. No branches have been closed since the last evaluation.

LSNB has total assets of \$192 million with \$138 million, 72 percent of assets, in loans as of March 31, 1998. The principal loan mix is shown below:

Type of Loans	Amount \$(000's)	Percentage
Real Estate, 1-4 family	33,603	24%
Commercial	51,581	37%
Commercial	38,781	28%
Individuals	14,827	11%
Other	117	< 1%
Total	138,909	100%

There are no legal or other impediments limiting LSNB's ability to help meet the community's credit needs.

LSNB is wholly owned by Lone Star National Bankshares - Texas, Inc., a one bank, holding company with assets of \$180 million as of December 31, 1997. The Texas holding company is owned by Lone Star National Bankshares - Nevada, Inc.

DESCRIPTION OF ASSESSMENT AREA

LSNB's assessment area (AA) is the greater portion of Hidalgo County. It includes the cities of Pharr, McAllen, Mission, Edinburg, Alamo, San Juan, Hidalgo, Las Milpas, Weslaco, Donna, and part of Mercedes. The portion of the county not included is an

area west of Mission, north and east of Edinburg, and east and south of Mercedes. The county of Hidalgo is located in a metropolitan statistical area (MSA).

The AA population is 302 thousand with 70 thousand families reported by the 1990 Census Bureau information. There are 16 thousand families, 23 percent, shown as low-income and 11 thousand, 16 percent, as moderate-income families. Middle-income and upper-income families are shown as 16 percent and 45 percent, respectively. The 1997 annual HUD estimated median family income is \$24,800. There are 51 census tracts within the AA of which none are low-income, 14 are moderate-income, 21 are middle-income, and 16 are upper-income tracts.

The economy is diversified with government agencies representing the largest employer, followed by retail trade and services. Unemployment was quoted at 17.2 percent for Hidalgo County and 20.3 percent for the city of Pharr, at March 1998, by the Texas Employment Commission. The county borders Mexico and is across from the Mexican 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. These plants provide beneficial effects to the American economy through increased employment and income in Mexico. This, in turn, increases food and consumer good sales in Hidalgo County.

We reviewed one prior community contact with a nonprofit community housing organization, made within the AA in 1997. We also reviewed the Executive Summary of the HUD Consolidated Plan for Pharr and made one additional community contact with a public housing authority. All of them indicated a need for affordable housing for low- and moderate-income individuals and the rehabilitation of the existing housing stock. Census data indicates there are 83 thousand housing units in the county, with 57 thousand owner-occupied, and 70 thousand 1-4 family units. The median year built is 1975 and median housing value is \$42,672.

Competition among financial institutions in LSNB's assessment area is intense with twenty-four commercial banks having branches in the area. The county also has five savings and loans, and eight credit unions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LSNB is performing in a satisfactory manner in meeting the credit needs of the entire assessment area, including low- and moderate-income individuals and areas, consistent with its resources and capabilities.

Loan-to-Deposit Ratio

The strong loan-to-deposit ratio, 74 percent at December 31, 1997, exceeds the 62 percent average of nine other independent financial institutions, all having deposits less than \$500 million, located within the assessment area. LSNB also has the highest ratio of all banks located in Hidalgo county and the adjacent five counties for that period. The bank's average loan-to-deposit ratio for the last six quarters is 72 percent. These ratios are exceptional in relation to other financial institutions, lending opportunities, demographics, and economic factors present in the assessment area.

Lending in Assessment Area

A substantial majority of credit is extended within the assessment area. The 1997 Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR) indicates 151 originations, of which 82 percent were made within the assessment area. The HMDA-LAR tracks home purchase, home improvement, refinancing, and multifamily dwelling loans. Our sample of 28 consumer loans originating since the last evaluation and outstanding as of December 31, 1997, indicates 96.4 percent are within the assessment area. The validity of the HMDA-LAR and our consumer sample is additionally supported by the bank's internal geocoding system. Their report of all consumer and commercial loans outstanding as of July 7, 1997 showed 94 percent of the number of loans and 93 percent of the dollar volume were inside the AA.

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

LSNB has a reasonable distribution of loans to individuals with different income levels and businesses of different sizes within the assessment area. The 1997 HMDA-LAR indicates 10 percent of the loans were to applicants in the low- and moderate-income categories. This percentage compares to the county demographics which show 39

percent of the families fall in these two categories. The HUD consolidated plan indicates these households are more likely to rent than own. LSNB has funded a loan to McAllen Affordable Housing to provide permanent financing for 24 homes targeted as affordable housing for low- or moderate-income individuals. Applications are being received for a similar program through Pharr Housing Authority.

The following table reflects the distribution of credit to borrowers of different income levels as reflected in the 1997 HMDA-LAR and samples of consumer and business loans.

Lending to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographics	16,277 23%		11,070 16%		11,481 16%		31,533 45%		70,361 100%	
Applicant	Low Income		Moderate Income		Middle Income		Upper Income		Total	
Loans in the AA	#	%	#	%	#	%	#	%	#	%
1997 HMDA-LAR										
Residential loans	6	6%	4	4%	11	10%	87	80%	*108	100%
Consumer Sample										
Consumer loans	5	18%	4	14%	9	32%	10	36%	28	100%
Commercial Sample										
Revenue Range (in thousands)	< \$100		\$100-\$500		\$500-\$1,000		> \$1,000		Total	
Business loans	7	47%	2	13%	3	20%	3	20%	15	100%

* Fifteen HMDA-LAR loans did not have income information.

The above chart indicates LSNB loans to businesses of all sizes. The loan portfolio mix shows 65 percent of outstanding loans are commercial and commercial real estate. The business loan sample indicates 60 percent of these loans are to businesses reporting less than \$500 thousand in annual gross revenue.

Geographic Distribution of Loans

The geographic distribution of loans reflects a reasonable dispersion throughout the AA. LSNB serves the credit needs of the most economically disadvantaged areas of its assessment area, low-income individuals, and very small businesses. The following table illustrates the level of lending to the various income census tracts:

Geographic Distribution of LSNB Loans in AA										
Census Tract	HMDA LAR 1997		Consumer Loan Sample							
	#	%	#	%	\$(000's)	%	#	%	\$(000's)	%
Low	0	0%	0	0%	0	0	0	0%	0	0%
Moderate	14	28%	9	7%	272	3%	8	28%	30	13%
Middle	21	41%	30	25%	2,782	27%	12	43%	70	30%
Upper	16	31%	84	68%	7,118	70%	8	29%	130	57%
Total	51	100%	123	100%	10,172	100%	28	100%	230	100%

The above table reflects weak lending volume in moderate census tracts. Census information shows moderate tracts represent 28 percent of total AA tracts, but only 15 percent of households in the AA. Six moderate tracts in the proximity of bank facilities are business districts or industrial tracts. The remaining eight tracts are the farthest removed from the facilities. These tracts contain a large number of Hidalgo County's estimated 868 colonias. The average percentage of owner-occupied homes in these eight tracts is 60.8 percent compared to 71 percent for the county. These are contributing factors to limited loan penetration in these areas.

LSNB has geocoded all consumer and commercial loans. The geographic distribution report for July 7, 1997 reflects loans in all census tracts with reasonable penetration throughout the assessment area.

Response to Complaints

During this evaluation period, LSNB has not received any consumer complaints regarding its CRA performance. 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. The Board and management have developed adequate policies, procedures, and training programs to prevent discriminatory or other illegal credit practices.