



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

June 14, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Harlingen National Bank
Charter Number 14776

115 East Van Buren
Harlingen, Texas 78551

Office of the Comptroller of the Currency
1600 Lincoln Plaza
500 North Akard
Dallas, Texas 75201-3394

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 Harlingen National Bank, prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of June 14, 1996. 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 community's credit needs, including low- and moderate-income individuals and areas. This is demonstrated by:

- a strong loan-to-deposit ratio;
- a majority of the bank's loans are within its designated assessment area; and
- loan distribution reflects good penetration among individuals and businesses of different income levels.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>Harlingen 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	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior compliance examination.		

DESCRIPTION OF INSTITUTION

Harlingen National Bank (HNB) is a commercial bank with a main office and three branches located in the City of Harlingen, Cameron County, Texas. A fourth branch is operated in the nearby city of La Feria, Texas. HNB has total assets of \$177 million with \$105 million in total loans. The primary focus is commercial lending with 52% of the loan portfolio centered in commercial loans.

The bank manages four loan production offices (LPOs) currently located in Texas in the cities of Harlingen, San Antonio, Marble Falls, and Midland. All of the loans generated at these LPOs are 1-4 family residential real estate and are sold on the secondary market. Loans which benefit low- and moderate-income individuals/areas include apartment complexes, rehabilitation loans, home loans, and business loans.

The bank 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 impediments, including legal, on the bank's ability to meet the various credit needs of the community based on its size, financial, and economic condition.

DESCRIPTION OF CAMERON COUNTY

Harlingen National Bank's assessment area is Cameron County, which includes the cities of Harlingen and Brownsville. The assessment area does not reflect illegal discrimination, and does not arbitrarily exclude any low- or moderate-income areas. According to 1990 census data, the assessment area has a population of 260 thousand and a median family income of \$18,731. Low income families number 15,002 or 24.6% of the 60,903 total families in the area. Moderate income families total 9,967 or 16.37%. Thirty percent of the assessment area is represented by low- and moderate-income census tracts. The local economy, primarily dependent on agriculture, tourism, light manufacturing, and retail business, is experiencing steady growth. Management has identified a need for various types of loans to small businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

HNB is performing satisfactorily in meeting the credit needs of the entire assessment area, including low- and moderate-income individuals and areas, consistent with its resources and capabilities. The bank's average loan-to-deposit ratio for the last nine quarters was 74 percent. The bank's loan-to-deposit ratio for period ending March 31,

1996, is 65 percent. This ratio exceeds the composite ratio of 50 percent for other banks in the area.

A substantial majority of credit extended is within the assessment area. An internal analysis performed in March 1996 reflected 77 percent of the dollar volume of outstanding loans were within the assessment area. A sample of new credits extended in 1996 supported this conclusion. The 1995 Home Mortgage Disclosure Act Loan Application Register (HMDA-LAR) reflects 39 percent of the residential mortgage approvals were for properties located within the assessment area. This is low since a majority of residential loans originate at the bank's four loan production offices, three of which are located out of the bank's assessment area. A sample of 21 consumer loans were reviewed. Eighty one percent were made to consumers residing in the assessment area. The sample of 30 loans booked in the commercial loan portfolio for the first three weeks of May 1996 indicated that 90 percent were extended within the assessment area. The following table illustrates loans in relation to the assessment area.

CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA
HMDA-LAR CONSUMER

BUSINESS

Assessment Area-Cameron County	#	\$000's	#	\$000's	#	\$000's
Inside Assessment Area	331	17,484	17	102	27	1,283
Outside Assessment Area	510	37,700	4	72	3	2,240
Total - MSA 1240	841	55,184	21	174	30	3,523
Total Originations	841	55,184	21	174	30	3,523

Loan distribution to individuals with different income levels within the assessment area is satisfactory. We reviewed the 1995 HMDA-LAR, consumer, and commercial loan sample. A review of the commercial loan sample, comprised of 30 business and farm loans, revealed that 19 or 63 percent were to businesses with revenues below 1 million. Twelve percent of the HMDA reportable loans in 1995 and 35 percent of the consumer loan sample were to low- and moderate-income individuals. No gaps in penetration to low- and moderate-income census tracts were noted. The following table shows the number of census tracts in the assessment area by applicant income category.

DISTRIBUTION OF CREDIT BY APPLICANT INCOME

Applicant Income Levels	HMDA-LAR Loans Originated			Consumer Loan Sample		
	# \$000's	# %		#	# %	\$000's
Low Income	8	2.4%	144	3	17.6%	2
Moderate Income	30	9.1%	405	3	17.6%	12
Middle Income	50	15.1%	1,075	1	5.9%	11
Upper Income	237	71.6%	15,634	10	58.8%	76
Income Not Available	6	1.8%	226	0	0.0%	0
Total	331	100.0%	17,484	17	100.0%	101

An analysis of the bank's geographical coding of approvals within the assessment area reflects a reasonable distribution of credit. The assessment area includes only one low income census tract and it is in the warehouse district of Brownsville. We reviewed a management report of all loans by type and tract made within the assessment area between 1/1/96 and 5/15/96. A total of \$6.2 million in loans was made to 559 individual, farms, and businesses. Forty-two percent of the loans, in both number and dollars, were made in moderate-income geographies. HMDA-LAR report shows 6 percent of loans were made in moderate-income census tracts as detailed in the following table.

**DISTRIBUTION OF CREDIT WITHIN THE ASSESSMENT AREA
1995 HMDA-LAR**

Income Characteristic of Census Tract	Loans Originated				
	Number of Tracts (#)	%	#	%	\$000's
Low Income	1	2	0	0.0%	0
Moderate Income	18	28	19	5.8%	545
Middle Income	25	39	156	47.1%	5,657
Upper Income	18	28	156	47.1%	11,282
Income Not Available	2	3	0	0.0%	0
Total	64	100	331	100.0%	17,484

No practices were detected which are intended to discourage applicants from applying for the types of credit offered. Management solicits credit applications from all segments of the community, including low- and moderate-income neighborhoods. Our review revealed substantial compliance with all provisions of the anti-discrimination laws and regulations. The Board and Management have developed adequate policies, procedures, and training programs to prevent discriminatory or other illegal credit practices. No complaints concerning CRA have been received since the prior examination.