

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION PUBLIC DISCLOSURE

Texas State Bank

Name of Institution
McAllen

City
Texas

State
Mario E. Fuentes

Examiner-in-Charge

P.O. Box 4797

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County
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Zip Code

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GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Texas State Bank, McAllen, Texas, prepared by the Federal Reserve Bank of Dallas, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of February 5, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to Improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial Noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated **Satisfactory** based on the findings presented below.

COMMUNITY PROFILE

McAllen, Texas is located in Hidalgo County, approximately 10 miles from the Mexico border town of Reynosa. According to the 1990 Census report, the population is 84,021. The McAllen Metropolitan Statistical Area (MSA) is comprised primarily of Hispanics, accounting for in excess of 85 percent of the population. Approximately 12 percent of the population is made up of White residents, with Black residents accounting for the remaining population. McAllen is the retail center of South Texas and Northern Mexico, drawing from a consumer base of over 10 million people within a 250 mile radius. There are approximately 28,000 households in McAllen and the average age of the population is 29.3 years. Financial institutions in the city include 10 banks, three savings and loans, and two credit unions.

Also located in Hidalgo County, Weslaco is 17 miles east of McAllen. According to 1990 U.S. Census data, the population is 25,996, of which 80 percent is Hispanic. Several economic development initiatives in Weslaco have attracted new businesses to the area. Included in these are: a K-Mart Super Store, the Texas National Guard Armory, and the Weslaco Airport Terminal.

The city of Harlingen, located in Cameron County, is about 40 miles east of McAllen. The county has a population of 260,120 according to 1990 Census data. In terms of ethnicity, 82 percent are Hispanic, 17 percent White, and the remainder consists of other minority groups. There are 73,278 households in the county, and the average age of the population is 27.4 years.

The cities of Roma and Rio Grande City are located in Starr County. Rio Grande city has a population of 14,200, according to 1990 census data and is 45 miles east of McAllen. Roma has a population of 8,500 and is 60 miles east of McAllen. Census figures indicate Starr County has a population of 43,300, comprised of 97.2 percent Hispanic, 2.5 percent non-Hispanic, and .3 percent other. Major employers in the area include Wal-Mart, Rio Grande City Independent School District, Starr County Hospital, and the Roma Independent School District.

BANK PROFILE

Texas State Bank is a subsidiary of Texas Regional Bancshares, Inc., a one bank holding company. The bank currently operates nine branch office locations, four in McAllen, two in Weslaco, one in Harlingen, one in Rio Grande City, and one in Roma. The newest location was opened in Weslaco as of February 5, 1996. As of September 30, 1995, the bank had total assets of approximately \$619 million, total deposits of \$559 million, and a loan-to-deposit ratio of 70.77 percent. The bank's primary lending focus is in the area of commercial/industrial loans, followed by real estate loans.

ASSESSMENT OF RECORD

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Under this category, the bank is evaluated on the effectiveness and suitability of its means of gathering information regarding the credit needs of its entire community. The criteria is set forth in the assessment factors below with the respective supporting comments and conclusions.

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

The Statement of the Federal Financial Supervisory Agencies regarding the Community Reinvestment Act (Policy Statement) indicates that an effective CRA process must include methods to ascertain community credit needs on an ongoing basis through outreach efforts to local governments, businesses, and community members and organizations. This ascertainment effort should include a system that facilitates dialog with these individuals and groups and enables them to communicate their concerns to an officer of the financial institution.

The bank's primary method of determining credit needs of its community is through the ongoing and personal involvement of directors, officers, and employees in various community groups and activities. Interaction with community members affords bank management the opportunity to maintain active participation and obtain feed-back regarding the bank's programs. A partial list of the organizations in which bank representatives are active includes:

- Advisory Council - South Texas Community College
- Cameron County Builders Association
- Council for South Texas Economic Progress
- Council of Women Realtors
- Harlingen Development Corporation
- Harlingen Chamber of Commerce
- Hidalgo County Builders Association
- McAllen Affordable Home, Inc.
- McAllen Economic Development Loan Administration Board
- McAllen International Trade Zone
- Minority Business Development Center
- Rio Grande City Chamber of Commerce
- Rio Grande Valley Small Business Administration Advisory Council
- South Texas Economic Progress
- Valley Industrial Council
- Weslaco Chamber of Commerce
- Weslaco Economic Development Committee
- Weslaco Housing Authority.

In February 1994, the bank instituted an informal officer call program whereby a representative from the south branch makes weekly calls on customers and non-customers in various business locations to verify satisfaction with bank products and services, and to solicit consumer and commercial business. In conjunction with the call program, welcome letters are also sent to newcomers and those who have indicated an interest in investing in McAllen and Pharr. For the period of July 1994 through December 1995, approximately 1,700 letters have been mailed to prospective residents and newcomers. In addition, four officers make periodic presentations to mobile home park residents to sell the bank's deposit and trust services. During these presentations, emphasis is placed on the Gold account (offered to persons 50 years and over, with minimum balance requirement of \$800 per month to avoid service charges and a minimum opening balance of \$100), CD Plus and savings accounts. Attendance at these presentations has ranged from 236 to 440.

To ensure the bank is apprising builders of its programs and rates, membership and participation in McAllen Builders Association provides the opportunity to discuss products, interest rates, and obtain information regarding proposed subdivisions, especially those in low- and moderate-income areas.

In an effort to ensure customers are provided the most up-to-date services available, the bank has developed new products to make banking transactions less time-consuming. The new products introduced since the last assessment include:

- ! Texstar Checking - requires a minimum balance of \$100.00 with a \$6.00 monthly fee plus \$.15 for each check or other withdrawal if the daily balance falls below \$600.00 during a monthly statement cycle.
- ! Freedom Fone - introduced in April 1995 offering 24-hour automated response system for account inquiries via touch tone phone. Account information is available in both English and Spanish.
- ! Freedom Pays - introduced in January 1996, provides customers with the convenience of paying bills via touchtone telephone. To encourage the system's use, the bank is offering the first sixty days free. After this period, monthly charges of \$3.00 plus \$.22 per bill will be assessed. Approximately 30,000 statement stuffers have been mailed in the March account statements to advertise the product.
- ! Freedom Line - introduced to Public Depository Accounts and Commercial Accounts to allow customers to dial into the bank through their PC/Modems to access accounts. The system is currently in the rest mode. As of the date of the assessment, 15 customers are using the product and management indicated positive feed-back has been received. By the end of March 1996, the system should be available for use by all customers who indicate an interest.

In addition, the bank is introducing a "bank at work" program whereby it will contact major employers and offer reduced-fee services for their personnel if they bank at First State. Management indicated one company is scheduled for a presentation to its employees, emphasizing the bank's direct deposit options, with expansion to other companies expected

at a later date.

To further ascertain community credit needs, the bank has made available in branch office lobbies copies of a survey entitled "Are we meeting your credit needs?". Management indicated no responses have been received.

The bank's ascertainment efforts are outstanding.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The Policy Statement states that banks are encouraged to develop a CRA plan to ensure an affirmative effort on the part of the bank to comply with the act. It further states that the duty to coordinate and monitor the CRA process should be assigned to a senior officer or a committee charged with the responsibility to report periodically to the board of directors about the bank's CRA efforts, performance, and areas for improvement, where appropriate. An employee training program should be established which addresses information about those policies of the bank designed to help meet community credit needs including the needs of low- and moderate-income areas and small businesses. Procedures should be implemented to assure that files are maintained, as required by the regulation, for purposes of receiving public comments and for reviewing and responding to the comments.

Regardless of how the bank organizes itself to implement its CRA plan, seeing that the institution has taken the steps necessary to help meet the community's credit needs is the responsibility of the entire organization, beginning with the board of directors and continuing through line management.

The board of directors approved the bank's CRA policy in April 1995. The CRA policy sets objectives and goals and provides a means for directing the bank's CRA program. Included in the policy are the following steps which management will take to ensure its CRA program is effective:

1. Bank will have regular contact with local government housing and development agencies and key elected officials, other community leaders and/or groups.
2. Bank's board and senior management will be involved and responsive in developing any products necessary and in making loans to meet local unmet credit needs.
3. Advertisements of credit services will be widely circulated in local media throughout the community to assure that marketing and delivery systems effectively reach a diverse market.
4. Bank will solicit credit applications from all segments of its community, including low- and moderate-income areas.

5. Bank will periodically participate in local development programs, often serving in a leadership role.

A mechanism for gauging the level of compliance with the initiatives was not detailed, however. Issues regarding CRA are discussed at quarterly compliance committee meetings, and those items are in turn reported to the board of directors. The compliance committee is comprised of several members of senior management. Although the bank's CRA officer is not elected annually, the Compliance Officer is charged with the responsibility of ensuring all CRA initiatives are followed through. In addition, training is conducted by the compliance department primarily through distribution of the bank's monthly newsletter. Pertinent items relating to CRA and Fair Lending are discussed in the issues. Furthermore, the compliance officers conduct on-site training at branches, as necessary.

The Policy Statement states that the bank's CRA statement should accurately reflect the types of lending and other services that the bank is willing to offer the community. This statement must be reviewed at least annually to ensure its accuracy. The services that the bank chooses to offer should be clearly articulated and reasonably related to community needs.

The bank's CRA statement was approved in April 1995. A review of the statement indicates the bank is in compliance with the technical requirements of the Act. The bank's performance under this factor is satisfactory.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Under this category, the bank is evaluated on its marketing efforts to promote the types of credit it is prepared to offer to its community, programs utilized for product implementation, and the effectiveness of the overall delivery of those credit services included in the bank's CRA statement.

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

The Policy Statement indicates that an effective CRA plan should include marketing and advertising programs for lending products and services that are responsive to the needs of the community and that will inform and stimulate awareness of those products and services throughout the community, including low- and moderate-income areas.

In marketing the bank's products and services, video, print, and audio media have been used. The bank utilizes a Spanish-speaking radio station (KIWW) to ensure Hispanic citizens are reached. In addition, the bank has run one general advertisement entitled "No one knows the Valley like we do" and one deposit-related advertisement entitled "Big Time Rates" airing on stations KGBT - Channel 4 and KRGV - Channel 5. Print advertising consists of various advertisements placed in local papers including The Monitor, The Valley Morning Star, Mid Valley Town Crier, and The Bargain Book. Moreover, the bank has also utilized billboards located in the area to promote products and services. A review of the bank's advertising since

the previous assessment indicates the use of special advertisements aimed at particular segments of the community through the use of minority models, and the inclusion of the Spanish language. For example, in an advertisement (ad) for the affordable housing program with the Harlingen Community Development Corporation, one ad was in Spanish and another in English.

The bank's performance under this factor is sufficient to inform all segments of its community.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

A review of the bank's Consolidated Report of Condition as of September 30, 1995, revealed a loan-to-deposit ratio of 70.77 percent and a loan to asset ratio of 68.54 percent. The distribution by loan type was as follows:

LOAN TYPE	DOLLAR AMOUNT	PERCENT OF TOTAL LOANS
REAL ESTATE:		
Construction	\$ 25,997	6.57
Residential 1-4	54,837	13.85
Multifamily	19,081	4.82
Commercial	109,899	27.76
Agricultural	15,283	3.86
CONSUMER:		
Open-end credit	100	0.03
All other	45,664	11.53
COMMERCIAL/INDUS TRIAL:	102,801	25.97
AGRICULTURAL:	19,247	4.86
STATE/POLITICAL OBLIG:	0	0.00
OTHER:	2,991	.75
Total	\$395,900	100.00%

This analysis indicates that the bank extends credit, by general type consistent with its CRA

statements of credits.

Included in the bank's number of real estate loans are those that benefit low- and moderate-income individuals. The programs the bank is participating in are as follows:

- ! Partnership with Non-Profit Resource Housing Group and the Texas Department of Housing and Community Affairs wherein the bank is financing one-half of the mortgages at 8 percent for 20 years and the state finances the other half at zero percent. The program targets very low income families. As of the assessment date, 13 loans totalling \$74,391 have been approved.
- ! In partnership with the Harlingen Community Development Corporation wherein the bank will loan 95% of the purchase price for a completed residence at nine percent for 20 years. This program will provide low income housing for residents. As of the assessment date, 15 loans have been funded totalling \$307,102. First State was the first bank to execute a master participation agreement for this housing program.
- ! As a participant with Texas Department of Housing and Community Affairs (TDHCA), the bank is financing 50 percent of construction costs at 8 percent interest and TDHCA is financing 50 percent at zero percent interest. This program benefits low- and moderate-income first-time buyers. The bank's total commitment for this program is \$278,000 and seven loans totalling \$135,725 have been closed.
- ! Commitment for \$25,000 extended for loans to residents of the Progreso Colonia with normal credit underwriting terms and a minimum loan amount of \$1,000. No loans have been funded under this program, however. The program is still being formalized to meet particular requirements and ensure adequate participation.
- ! The bank continues to honor its commitment with McAllen Affordable Homes. In addition, the bank entered into a \$200 thousand participation agreement with Frost National Bank to build affordable housing in South McAllen (a low- and moderate-income area) in conjunction with McAllen Affordable Homes.

According to the Uniform Bank Performance Report (UBPR) as of September 30, 1995, the bank's loan mix compared to peer was as follows:

LOAN TYPE	BANK Loan Mix	PEER Loan Mix
Construction/Development	6.15	3.10
1-4 Family Residential	14.03	28.10
Home Equity Loans	0.00	2.72
Other Real Estate Loans	36.01	20.86
Total Real Estate:	56.19	56.46
Financial Institution Loans	0.00	0.00
Agricultural Loans	5.11	.24
Commercial/Industrial Loans	27.73	15.71
Loans to Individuals	9.99	17.59
Municipal Loans	.01	1.20
Acceptances of Other Banks	0.00	.64
Foreign Office Ln and Ls	0.00	0.00
All Other Loans	0.98	0.44

As evidenced by the table above, the bank is slightly higher than peer in lending for commercial/industrial purposes and other real estate loans. Furthermore, the bank's agricultural lending exceeds peer.

In addition, the bank's net loan to deposit ratio compared to peer was as follows:

NET LOANS/LEASES TO DEPOSITS

<u>Bank</u> 69.80%	<u>Peer</u> 75.65%
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The bank's lower than peer net loans and leases to deposits ratio may be explained by the bank's large deposit base. No other explanation could be provided by management.

TOTAL 1994 (HMDA) MORTGAGE LOAN ORIGINATIONS		
LOAN TYPE	NUMBER	DOLLAR AMOUNT (000's)
Home Purchase	201	\$ 9,669
Home Improvement	67	\$ 539
Refinancing	179	\$ 8,165
Multifamily	14	\$ 3,034

Please refer to Geographic Distribution and Record of Opening and Closing Offices, Factor E for an analysis of the bank's lending activity.

The bank's performance in this factor is satisfactory.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

As a certified lender with the Small Business Administration (SBA), the bank has originated 47 SBA guaranteed loans totalling approximately \$5.5 million since the last assessment. Additionally, in the August 1995 issue of SBA Update, the bank was named as one of the top 15 banks participating in the LowDoc Loan program.

The bank offers Texas Guaranteed Student Loans to eligible borrowers. Although the bank sells these loans to the Council for South Texas Economic Progress (Co-Step) as they come due, there was a total outstanding balance of \$2.3 million as of the date of this assessment, representing 729 accounts.

The bank has no direct involvement in FmHA, FHA, and VA lending. However, warehouse financing is provided through Valley Mortgage Company (VMC). Included in the warehouse loans are those funded under the Cameron County Bond program, which is a program aimed at low-income, first-time home buyers. Because of VMC's high level of involvement in these programs, the bank chose not to try to compete for this business.

The bank's performance in this factor exceeds satisfactory level.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Under this category, the bank is evaluated on the reasonableness of its community delineation, the geographic distribution of its loans and on the effects of opening and closing offices.

Reasonableness of Delineated Community

The regulation requires state member banks to prepare, and at least annually review, a delineation of the local community or communities that comprise its entire community, without excluding low- to moderate-income neighborhoods. Maps are required to be used to portray community delineations. The regulation requires Federal Reserve System examiners to review the reasonableness of the delineations.

The regulation states that a local community shall consist of the contiguous areas surrounding each office or groups of offices, including any low- and moderate-income neighborhoods in those areas. In preparing its delineation, a bank may use any one of the three bases, as stipulated in the regulation: (1) existing boundaries, such as those of a Metropolitan Statistical Area or counties in which the bank's office or offices are located, (2) the bank's effective lending territory, which is defined as that local area or areas where it makes a substantial portion of its loans and all other areas equidistant from its offices, or (3) any other reasonably delineated local area that meets the purposes of CRA and does not exclude low- and moderate-income areas.

The bank has defined its delineation as the five cities in which it has branch offices. For the branch offices located in McAllen, the bank has designated the city of McAllen and its extra territorial jurisdiction (ETJ) to be its delineated community. The ETJ is further defined as the unincorporated area that is contiguous to the corporate boundaries of the city and that is located within three and one-half miles of the corporate boundaries. For the Harlingen branch, the bank considers the city of Harlingen and its ETJ to be its delineated community. Harlingen's ETJ is the unincorporated area that is contiguous to the corporate boundaries of the city and that is within two miles of the corporate boundaries. For the Weslaco branch locations, the bank has defined the city of Weslaco and its ETJ as its delineated community. Weslaco's ETJ is the unincorporated area that is contiguous to the corporate boundaries of the city and that is located within one mile of the corporate boundaries. The branches located in Rio Grande City and Roma have a delineation described as the areas of Starr County and the adjoining Hidalgo County.

The bank's delineations appear to be reasonable and consistent with method number one described above, without excluding any low- and moderate-income areas.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The Policy Statement states that the services the bank chooses to offer should be distributed within the bank's community in a fair and nondiscriminatory manner, in keeping with the bank's general approach to its business.

In an effort to obtain an analysis of the bank's 1994 mortgage lending activity, the bank utilized a service provided by Sheshunoff, Inc., wherein a detailed analysis for the period covering January 1, 1995 through July 1995 was performed. The analysis was performed by MSA/branch location.

The examiner's analysis of the bank's HMDA data focused primarily on mortgage lending activities within the market delineation, which revealed the following:

The racial and ethnic characteristics of the bank's market delineation is comprised of 81 percent Hispanics, 18.3 percent Whites, and with the remainder being other ethnic minority groups.

The low- and moderate-income market population is approximately 24 percent and accounted for 9.33 percent of total loan applications received by the bank in 1994.

Minority residents comprise 81.7 percent of the market population, and minority residents accounted for 68 percent of loan applications received by the bank and 62 percent of loan originations in 1994. The number of applications received from minorities represents an increase over the 1993 percentage of 54.

Compared to 1993, the volume of loan applications received from within the bank's delineation decreased slightly in 1994. The bank received a total of 647 loan applications in 1993 compared to 635 in 1994, a decrease of approximately 2 percent. Requests for home improvement loans increased the most from 130 in 1993 to 180 in 1994; an increase of 38 percent. However, the bank originated more conventional home purchase loans than refinancings or home improvement loans. The bank did not report any loan requests or originations of FHA, FmHA and VA loan products. However, these loans are addressed under Assessment Factor J.

Similarly, the bank's origination of loans for 1993 and 1994 are comparable, with only a slight increase from 460 in 1993 to 461 in 1994. Again, originations for home improvement loans increased the most, by 38 percent.

With regard to ethnicity, loan requests from Hispanic applicants increased slightly from 396 in 1993 to 400 in 1994. For White applicants, loan requests decreased by 10.8 percent, from 203 in 1993 to 181 in 1994. Loan originations for minority applicants also increased significantly.

Analysis of the bank's loan denial rates for minority applicants indicates denial rates for minorities significantly exceed those of White applicants as indicated below:

<u>Race</u>	<u>1993</u>	<u>1994</u>
Hispanic	27%	27%
White	6%	4%
Minority	27%	23%

The data above indicates that denial rates for Hispanic applicants exceed those of White applicants by a margin of 6.1 times (for Hispanics) and 5.1 times for minorities. However, this variance is due in part to the bank's involvement in numerous loan programs offering better than market rates and terms. This results in a higher volume of applications received.

When compared to the aggregate market, denials and origination rates for other banks in the market, Texas State Bank compares more favorably for White applicants, but lags the market for minority applicants as indicated below:

	<u>Denial Rates</u>		<u>Origination Rates</u>	
	<u>Bank</u>	<u>Market</u>	<u>Bank</u>	<u>Market</u>
Hispanic	27%	25%	64%	64%
White	4%	10%	89%	78%
Black	0%	18%	100%	64%
Minority	11%	14%	77%	65%

An analysis of the loans inside and outside of the bank's delineation revealed that 71.35% of the loan applications and 74.84% of originations occurred within the bank's market. On the whole, the bank received 890 loan applications in 1994, 635 of which came from inside the market, and 255 from outside.

Overall, while the number of loan applications and originations for minority applicants increased from 1993 to 1994, denial rates for minority applicants continue to exceed those of White applicants by a substantial margin.

In addition, the examiner's review of the bank's loan distribution for the sample month of December 1995 revealed a reasonable distribution of loans within the bank's delineated community.

The bank's performance under this factor is satisfactory.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

In an effort to assure all members of the bank's community have access to its services, the bank has established hours which meet the convenience and needs of its community. The bank's hours of operation are as follows:

All Bank Locations

Monday - Thursday 9:00 a.m. to 4:00 p.m.

Friday 9:00 a.m. to 6:00 p.m.

Saturday 9:00 a.m. to 1:00 p.m.

Motor Bank

Monday - Friday 7:30 a.m. to 6:00 p.m.

Saturday 8:00 a.m. to 1:00 p.m.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Under this category, the bank is evaluated on its compliance with anti-discrimination and other related credit laws, including efforts to avoid illegal prescreening of potential applications.

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA statement(s).

The bank's CRA statement indicates that the following types of credit are available to members of its community:

A. CONSUMER TYPES

1. New and used motor vehicles
2. New appliances and home loans
3. Certificate of deposit loans
4. Savings account loans
5. Cash value life insurance loans
6. Stock loans
7. Signature loans to low income groups
8. Co-signed or guaranteed loans when a co-signer or guarantor is deemed to be credit-worthy
9. Texas Guaranteed Student Loan Corporation Student loans
10. Loans to Foreign Nationals
11. New and used recreational vehicle loans
12. New and used mobile home loans
13. New and used boat loans

B. AGRICULTURAL TYPES

1. Equipment loans
2. Livestock loans
3. Crop and equipment loans
4. Commodity loans
5. Loans Secured by the United States Farmers Home Administration

C. COMMERCIAL TYPES

1. New and Used Equipment loans
2. Inventory loans
3. Accounts receivable loans
4. Certificate of deposit and savings account loans
5. Loans secured by Government Securities and other high grade bonds
6. Loans secured by Marketable Stocks
7. Airplane loans
8. Small Business Administration Guaranteed loans, to include but not limited to minority owned businesses and Certified Development Companies loans under the SBA 504 program
9. Unsecured loans based on financial statement
10. Letters of Credit
11. Floor Plan Loans
12. Oil, Gas and Energy Related Loans
13. Lines to Finance Institutions secured by U.S. Governments and Treasuries
14. Loans to minority owned businesses
15. Furniture and Fixture loans
16. Loans to nonprofit organizations

D. REAL ESTATE LOANS

1. Commercial
2. Residential
3. Multi-family
4. Construction
5. Home Improvement
6. Land Development
7. Farm and Ranch
8. Unimproved Real Estate
9. Real Estate loans to persons or businesses in low- and moderate-income neighborhoods.

Further ensuring customers are treated fairly and have access to the bank's loan products, the bank has implemented a second review process wherein branch managers or presidents review denials before they are mailed to the customer. If the manager is unavailable, another lender will review the information before the denial is forwarded to the applicant.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

The Fair Lending analysis of the examination was conducted, revealing no evidence of discriminatory credit practices. However, the bank was cited with violations in Regulations B and C, but they were nondiscriminatory in nature. The bank is in substantial compliance with all fair lending laws and regulations.

V. COMMUNITY DEVELOPMENT

Under this category, the bank is evaluated on its participation in community development and/or other factors relating to meeting community credit needs.

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

The bank continues to be involved in community development efforts. Currently, in addition to participation in the low- and moderate-income housing programs mentioned previously, the bank has deposits for local municipalities totalling over \$24.7 million. Additionally, loans to municipalities also total approximately \$83.5 thousand. Bond programs in which the bank participates total in excess of \$2.4 million.

The following are a few of the local bonds purchased by the bank:

Mission Texas Wastewater and Sewer System Revenue Bonds
Weslaco Texas Wastewater and Sewer System Revenue Bonds
Harlingen Texas General Obligation Bonds.

The bank's performance in this factor is commendable.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Texas State Bank does not appear to have any constraints which would hinder it from meeting the needs of its delineated community. Additional information regarding the bank and its community is available in the profiles at the beginning of this assessment.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

The bank provides financial as well as technical support to numerous community organizations. Since the last assessment, charitable contributions totalled approximately \$17 thousand.

The bank has sponsored, presented, or participated in many seminars to promote community programs. Membership in the South Texas Higher Education Authority allows bank management to participate in seminars and educational programs which inform parents and students about the availability of financial assistance for education. Additional evidence of the bank's involvement in the community is detailed below:

- ! Lobby of Harlingen branch used for the Harlingen Community Development Corporation staff to provide Affordable Housing Program information
- ! Bank personnel participated in Career Days at local schools
- ! Staff members maintain active involvement in the Adopt-A-School Program
- ! Bank provided paperback books for second graders through the Reading is Fundamental program
- ! Bank donated scoreboard for Weslaco High School girl's softball field
- ! Purchased 100 copies of training materials for Weslaco High School entitled "Your Checking Account", an instruction kit which is designed to teach students how to correctly write checks, make deposits, and balance their accounts.
- ! Bank sold and financed a tract of land to a minority land developer for development into home sites targeted to low- and moderate-income citizens
- ! The tax service of the American Association of Retired Persons maintains office space in the Weslaco branch office free of charge.

The bank's performance in this factor is excellent.