



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 15, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Continental National Bank
Charter Number 16381**

**601 N. Mesa
El Paso, Texas 79901**

**Office of the Comptroller of the Currency
Dallas Duty Station
1700 Lincoln Plaza
500 North Akard
Dallas, Texas 75201**

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 **Continental National Bank**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of July 15, 1997. 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 “**Outstanding.**”

- Continental National Bank's loan-to-deposit ratio has had a cumulative average of 56% for the eight-quarter period since the prior CRA Evaluation. The loan-to deposit ratio stood at 62% for March 31, 1997. This is a leading ratio when compared with similar institutions having offices in El Paso County.
- A substantial majority of Continental National Bank's loans and other lending related activities are in the bank's assessment area (AA). As of April 18, 1997, 86% of the number and 88% of the total dollar amount of loans were made in the AA.
- Continental National Bank's geographic distribution of loans reflects a reasonable dispersion throughout the AA.
- The distribution of borrowers reflects a strong penetration among individuals of different income levels and businesses of different sizes.
- There have been no consumer complaints with respect to Continental National Bank's CRA performance since the prior public disclosure, including the period during the branch application phase.
- The level of qualified investments is commensurate with the bank's size, resources, financial condition, and available opportunities.
- Continental National Bank's variety of products and services have been made easily accessible and available through the branch expansion program which has thus far, resulted in the opening of six branches since March 1996.

The following table indicates the performance level of **Continental National Bank, El Paso, Texas** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	CONTINENTAL NATIONAL BANK 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 examination.		

DESCRIPTION OF INSTITUTION

Continental National Bank (Continental) has total assets of \$99 million, with its main office in downtown El Paso at 601 North Mesa. Continental is headquartered in El Paso, Texas and is independently owned by Continental National Bancshares, Inc., a one-bank holding company. Continental has six branches and each one is in a supermarket chain which has locations throughout the City of El Paso. All locations have an ATM available 24 hours a day. Drive-up tellers are available at the main office. Most of the bank's direct lending is in commercial loans, with the next largest concentrations in residential loans and consumer loans. The focus of commercial lending is in commercial real estate loans, and the focus of residential lending is in interim construction and home improvement loans. Permanent financing for over 90% of these residential construction loans is being provided by other lenders. A breakdown of the loan portfolio, as of March 31, 1997, is shown below:

Loan Type	Dollar Volume (000's)	% of Loan Portfolio
Consumer	\$ 8,154	14.31%
1-4 Family Residential and Interim Construction	\$ 11,624	20.41%
Commercial	\$ 8,461	14.85%
Commercial Real Estate	\$ 25,396	44.58%
Small Business Administration	\$ 2,785	4.89%
Agriculture	\$ 546	0.96%
Total	\$ 56,966	100.00%

There are no legal, financial, or other factors that impede the bank's ability to help meet the credit needs in its assessment area.

DESCRIPTION OF EL PASO COUNTY

Continental's defined assessment area (AA) is El Paso County, Texas, which is Metropolitan Statistical Area (MSA) 2320. The AA meets the requirements of CRA and does not arbitrarily exclude low- or moderate-income (LMI) geographies. The El Paso MSA includes 95 census tracts (CT's), with eight being classified as low-income, 27 being moderate-income, 34 being middle-income, and 26 being upper-income. These classifications are based on a median family income (MFI) of \$24,057, which was developed in 1990 by the U.S. Census Bureau. Seven of

the eight low-income CT's are located in south El Paso, near the Mexico border. The area is economically depressed and includes a high number of industrial businesses. It is also noted that 22% of the total of 178,514 households in the AA are below the poverty level.

MSA population is estimated at 682,000 as of December 31, 1996 by the city of El Paso. This level is up from the 591,610 persons estimated by the 1990 Census. Ethnic makeup has been consistent with 74% of the estimated 1996 population being minorities (70% Hispanic, 3% Black, and 1% other). The Housing and Urban Development (HUD) updated MFI is \$28,600 for 1996, and \$31,100 for 1997.

The local economy is stable. The economy is supported by several industries that include retail and wholesale trade, light manufacturing, the maquiladora (twin) plants, education, and the U.S. military and other government. The unemployment rate has been historically high, ranging from 10-12% in the 1990's. As of February 1997, the unemployment rate for the city of El Paso was 11.9%. The county's close proximity to the Mexico border also makes it vulnerable to economic changes in Mexico.

The local banking environment is highly competitive and includes three other community banks, several credit unions, and branches of other community banks, a regional bank, and two multinational banks. Affordable housing was the predominant need identified by two economic development and two community-based organizations which were consulted. Continental began a mortgage lending department in January 1996 to help address local home loan needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

- **Loan to Deposit Ratio**

Continental National Bank's loan-to-deposit (L/D) ratio exceeds the standard for satisfactory performance, and is a leading ratio when compared with other institutions in the area having similar characteristics. Continental has averaged a L/D ratio of 56% since the prior CRA Evaluation, which is dated April 18, 1995. Over this same two-year period, banks of similar size operating solely in El Paso County averaged 48%. While this peer group of banks remains at a L/D ratio of 48% as of March 31, 1997, Continental's L/D ratio has risen steadily, especially over the last four quarters, to the current 62%. This increase is largely attributed to a rise in construction financing which began with the new mortgage department, and to growth in consumer lending which coincided with the start of the branch expansion program in March 1996.

- **Lending in the Assessment Area**

A substantial majority of Continental National Bank's loans are in the AA, exceeding the standards for satisfactory performance. The bank's analysis of all loans as of April 18, 1997 shows that 86% of the number of loans and 88% of the loan dollars are in the AA. A review of

Home Mortgage Disclosure Act reports for 1996, and year-to-date 1997 shows 80% of the number and 99% of the dollars being originated in the AA. A review of all commercial and consumer loans originated in April and May 1997 disclosed 98% and 91% of the number of loans and 94% and 92%, respectively, of the commercial and consumer loan dollars in the AA.

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

The distribution of loans to borrowers of different income levels demonstrates high lending levels to low- and moderate-income persons for consumer purposes and small businesses. Based on a review of loans as indicated previously, the bank lends proportionately more to LMI consumers than the makeup of the AA. For example, analysis of all consumer loans granted in April and May 1997 shows that lending to low-income persons represents 13% of the number and 14% of the dollars, clearly very favorable when compared to the fact that only 5% of the total households in the AA are low-income. Residential lending to LMI borrowers is reasonable when compared to LMI makeup of the AA. All comparisons under this performance category were based on HUD MFI amounts of \$28,600 for loans made in 1996 and \$31,100 for loans made in 1997.

A comparison of the loans reviewed to the AA demographic data is detailed below. All dollar amount are in thousands.

	Loan Sample Distribution by Income Group									
	Low Income Households		Moderate Income Households		Middle Income Households		Upper Income Households		Total # of Households	
Area Demographic Characteristics # of Households:	5 %		26 %		36%		33%		100%	
	9,008		45,676		64,503		59,327		178,514	
Loan Type		%		%		%		%		%
Consumer - #	36	13.0	76	27.5	61	22.1	53	19.2	276†	100
Consumer - \$	278	14.4	536	27.8	447	23.2	320	16.6	1,932†	100
Residential-1996 #	3	7.1	5	11.9	3	7.1	31	73.8	42	100
Residential-1996 \$	6	0.3	15	0.9	36	2.0	1,704	96.8	1,761	100
Residential-1997 #	1	6.7	2	13.3	3	20.0	9	60.0	15	100
Residential-1997 \$	1	0.2	9	1.3	22	3.3	638	95.2	670	100

†Includes 50 loans totaling \$350 thousand for which income data was unavailable; these loans are 18.1% of total number and 18.2% of the total dollars.

The distribution of commercial loans to businesses of different sizes is very favorable toward small businesses. A sample of 51 commercial loans that originated in April and May 1997 revealed that 20 or 39% of the number and \$388,000 or 44% of the dollars were to businesses with less than \$500,000 in gross revenues, and 4 or 8% of the number and \$114,000 or 13% of the dollars were to businesses with revenues between \$500,000 and \$1 million. Loans to businesses with gross revenues of more than \$1 million amounted to 25 or 49% of the number and \$369,000 or 42% of the dollars. Income data was unavailable for two loans that totaled \$15,000.

Geographic Distribution of Loans

The geographic distribution of the loans reflects a reasonable dispersion given the demographic characteristics of the AA. The analysis of all loans originated in the AA from January 1 to May 31, 1997 shows that 21% of the number and 13% of the dollars of loans were made in LMI CT's. Both of these levels are lower than the percentage of LMI CT's in the AA of 36%.

Lending in Areas of Different Income Levels within the Assessment Area Numbers of Loans and Total Loan Dollars for period January 1 to May 31, 1997										
	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts		Total	
Percent of Total Demographic Areas in AA:	8%		28%		36%		27%		100%	
Count:	8		27		34		26		95	
Loan Types		%		%		%		%		%
Consumer - #	28	5.6	100	20.0	201	40.3	170	34.1	499	100
Consumer - \$	202	5.5	630	17.3	1,331	36.6	1,477	40.6	3,640	100
Real Estate - #	2	2.7	2	2.7	34	46.6	35	48.0	31	100
Real Estate - \$	1	3.6	4	14.3	10	35.7	13	46.3	28	100
Commercial - #	5	5.7	9	10.2	38	43.2	36	40.9	88	100
Commercial - \$	152	2.1	556	7.5	5,596	75.6	1,096	14.8	7400	100
Totals - #	35	5.3	111	16.8	273	41.4	241	36.5	660	100
Totals - \$	354	3.2	1,186	10.7	6,927	62.8	2,573	23.3	11,040	100

- **Responses to Complaints**

Continental National Bank has not received any comments from the public regarding their CRA performance, since the prior CRA Performance Evaluation, including the period during the branch application phase.

An examination of applications for home improvement loans was conducted to determine if there were indications of discrimination or disparate treatment in underwriting standards on the basis of ethnic origin. A total sample of 30 files were reviewed: fifteen approvals and seven denials in 1996, and four approvals and four denials in the first quarter of 1997. The results of this examination show no reason to believe that illegal discrimination has occurred in the granting or denial of those loans. No violations of the substantive provisions of antidiscrimination laws and regulations were identified.

Qualified Investments

A reasonable level of qualified investment activity is noted for this bank's size, resources, and financial condition. A \$734 grant by the bank in December 1995 to ACCION El Paso, Inc., a non-profit organization, is helping to cover operating expenses of a program for the first three years. ACCION's program is to "provide credit and other services to the low- and moderate-income self-employed of El Paso". Continental has also agreed to contribute its proportionate share, based on total assets, of a revolving loan fund for the next three years. The total commitment stands at \$37,412 or 2.93% of a total of \$1,275,000. These future loan amounts will provide ACCION necessary funding for "small loans to primarily minority owned businesses which generally do not have access to commercial business credit". Continental is one of the seven area banks represented on the Board of Directors of ACCION.

A loan for \$59,000 was extended in November 1996 to a community development group to build an affordable housing duplex. This loan resulted from a partnership between Continental and the City of El Paso, as the City has recently approved a grant to pay off this loan. Another loan for \$10,000 was made April 1997 to the Southside Low-Income Housing Development Corporation for operating expenses. This corporation assists in providing housing for low-income residents of south El-Paso, which consists primarily of low-income CT's.

Services

Continental has enhanced overall performance by making bank products and services easily available and accessible to all segments of the community. The bank has accomplished this by opening full-service branches in six different supermarket locations. Currently, two additional branches are planned, bringing the total to eight. An ATM will be provided in each of the 18 stores of this supermarket chain where full service branches are not located. Hours are very convenient with all of these locations open from 10 AM to 8 PM Monday through Friday, from 10 AM to 6 PM on Saturdays and from 1 PM to 6 PM on Sundays. ATM's are available 24 hours a day at all bank locations.

Low-cost deposit accounts are offered to senior citizens over the age of 50. The bank also offers

free checking to all customers. Brochures are in both Spanish and English, further increasing the accessibility to bank products and services. Availability of certain deposit accounts is enhanced by the use of no or nominal minimum balance requirements are noted. To make all bank products and services more available, Continental began a Phone Bank where customers are able to speak to a bilingual bank representative between 8 AM and 5 PM Monday through Friday.