



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 30, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Zapata National Bank
Charter Number 14955**

**7th & Hidalgo
Zapata, TX 78076**

**Comptroller of the Currency
San Antonio South Field Office
10101 Reunion Place Blvd., Suite 402
San Antonio, TX 78216-4165**

NOTE: This document is an evaluation of this 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. 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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

Zapata National Bank's lending performance reflects a satisfactory response to its assessment area's (AA) credit needs. We based this conclusion on:

- The bank's loan-to-deposit ratio is good. While there are no other similarly situated financial institutions in the AA, it compares favorably to other community banks in the region.
- The ratio of loans made in the bank's AA is excellent.
- The distribution of borrowers reflects a reasonable penetration among individuals of different income levels.
- There have been no complaints with respect to the bank's CRA performance.

DESCRIPTION OF INSTITUTION

Zapata National Bank (ZNB) is an independently owned community bank with total assets of \$52.7 million as of June 30, 2002. The one office is located in the township of Zapata. The facility includes drive-up tellers and one automated teller machine. ZNB's loan portfolio consists primarily of 1-4 family residential loans.

Loans, totaling \$19.6 million as of August 31, 2002, represent 38 percent of ZNB's total assets. The following table reflects the distribution of outstanding loan balances at that time:

Loan Category	\$ (000's)	% of Total Portfolio
Residential Real Estate	10,180	52
Consumer	3,559	18
Commercial/Commercial Real Estate	3,273	17
Other	2,577	13
Total	19,589	100

Since the prior evaluation in November 1997, residential real estate loans have increased from 46 percent of the portfolio, consumer loans have declined from 27 percent of the portfolio, and commercial/commercial real estate loans have declined from 19 percent of the portfolio. This is reflective of ZNB's emphasis on residential real estate lending.

There are no legal or financial circumstances that impede the bank's ability to help meet the credit needs of its AA. The bank does not have any affiliate relationships other than its parent holding company. The holding company is location in Zapata, Texas and its size is about the same as the bank. Other than converting to a subchapter S corporation at the beginning of 2002, there have been no changes in ZNB's corporate structure since the last review.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA includes all of Zapata County. Zapata is not in a Metropolitan Statistical Area (MSA). The AA consists of three block numbering areas, all of which are categorized as moderate-income. The boundaries of the AA meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate- income geographies.

Competition in Zapata County is limited to an affiliate bank of a large regional bank, headquartered in Laredo, Texas. Laredo is located approximately 50 miles north of Zapata.

The following table summarizes some of the statistics from the 1990 census and discussed in the ensuing narrative:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	2,405
Number of Households	2,878
Number of Persons	9,279
<i>Geographies</i>	
Number of Census Tracts/BNA	3
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	3
% Middle-Income Census Tracts/BNA	0
% Upper-Income Census Tracts/BNA	0
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	16,884
2002 HUD-Adjusted MFI	36,100
<i>Economic Indicators</i>	
Unemployment Rate (%)	4.66
1990 Median Housing Value	36,109
% of Households Below Poverty Level	35.89

Management estimates that the population is now around 13,000, which is a 40 percent increase since the 1990 census. This is attributable to the increase in the number of people who work in Laredo, but choose to live in a more rural setting. Also, the oil and gas industry has expanded over the past 12 years.

Economic conditions are good, overall; however, the 1990 census information reflects that nearly 36 percent of the households live below the poverty level. The 2000 census numbers may show an improvement because the updated median family income of \$36,100 is more than double the 1990 income level. Of the 2,405 families, 940 (39 percent) were low-income, 408 (17 percent) were moderate-income, 408 (17 percent) were middle-income, and 649 (27 percent) were upper-income.

The major employers are local government, the Zapata Independent School District, and the oil and gas industry. Winter tourism has declined significantly because the main attraction, Falcon Lake, has shrunk substantially and is not visible from many lodging sites.

The last CRA examination was completed in November 1997 and resulted in a satisfactory rating.

We reviewed two previous community contacts during this examination. One, a church leader, said that he could not think of anything that would be relevant. The other contact from an after school business said there was a need for more education, which is not a lending issue.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has demonstrated “satisfactory” performance in meeting the credit needs of the Assessment Area.

Loan-to-Deposit Ratio

ZNB’s loan-to-deposit ratio (LTD) meets the standards for satisfactory performance. Since the last examination, the ratio at the end of each quarter has been relatively stable and has averaged 40.3 percent. It has ranged from a high of 45.6 percent on September 30, 1999 to a low of 36.8 percent on March 31, 2002. As of June 30, 2002, it was near the average at 40.2 percent. In addition, the bank is the depository for a large amount of public deposits, which cannot be loaned out. Netting out these public deposits, the current LTD would approximate 60 percent. While there are no other similarly situated banks in the AA, there are two similarly situated banks in south Texas. ZNB’s LTD compares favorably to those banks.

Lending in Assessment Area

ZNB’s lending within the AA exceeds the standards for satisfactory performance. All of the loans in our sample of residential real estate originations were secured by houses and manufactured homes located in the AA. The following table illustrates the bank’s performance:

LENDING IN AND OUT OF THE ASSESSMENT AREA								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential Real Estate	20	100	869	100	0	0	0	0
Total Reviewed	20	100	869	100	0	0	0	0

Lending to Borrowers of Different Incomes

ZNB’s lending to families of different incomes meets the standards for satisfactory performance. The distribution is reasonable given the exceptionally low level of income in the AA. The low level of income in the AA makes it less likely that many of the low-income families would be able to qualify for traditional home loans offered by commercial banks. Executive Vice President Mardelicia Martinez said that the bank has made home loans to low-income families; however, we only had one in our sample of 20 home loans. Again, this is reasonable considering the demographics.

DISTRIBUTION OF BORROWERS BY INCOME LEVEL								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	39		17		17		27	
	% of Number	% of Amount						
Residential Real Estate	5	3	30	22	20	17	45	58
Total	5	3	30	22	20	17	45	58

Geographic Distribution of Loans

This analysis would not be meaningful to this bank because all of the block numbering areas that comprise the AA are moderate income.

Responses to Complaints

Neither the bank nor the OCC have received any complaints about this bank relating to CRA.

Fair Lending Review

An analysis of nearly five years of public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending exam was performed in 1997.