



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 01, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank Of South Padre Island
Charter Number 18063**

**709 Padre Boulevard
South Padre Island, TX 78597**

**Comptroller of the Currency
San Antonio South Field Office
10101 Reunion Place Blvd., Suite 402
San Antonio, Texas 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.

The lending performance of First National Bank of South Padre Island reflects a satisfactory response to community credit needs, including low- and moderate-income individuals. Factors supporting the overall rating include:

- The distribution of loans to individuals of different income levels is reasonable, given the high real estate values and the demographics of the AA. The penetration of loans to small businesses with annual revenues equal to or less than \$ 1 million is good.
- The loan-to-deposit ratio is reasonable given the bank's size, financial condition and AA credit needs.
- A substantial majority of loans, representing 92% by number and 97% by dollar volume, are within the bank's assessment area (AA).
- There have been no consumer complaints regarding the bank's Community Reinvestment Act performance during this evaluation period.

DESCRIPTION OF INSTITUTION

First National Bank of South Padre Island (FNB) is an independently owned community bank with its main facility located in the resort city of South Padre Island, Cameron County, Texas. The bank has a branch in the city of Port Isabel, also located in Cameron County. Both locations provide basic banking services. FNB operates two ATM's. One is located at the main office and the other is at the branch location. The bank is the only subsidiary of Laguna Madre Bancshares, Inc. based out of South Padre Island, Texas. Including the subsidiary bank, it has total assets at December 31, 2001 of \$47 million.

As of December 31, 2001, FNB's assets totaled \$47 million. Total loans of \$21 million represent 44.7% of total assets. The bank's primary business focus is on commercial real estate, residential real estate, and commercial lending. The previous Community Reinvestment Act (CRA) Performance Evaluation, dated December 15, 1997, reflected a satisfactory rating. There are no legal or other impediments that limit the bank's ability to meet the community's credit needs. The following table depicts FNB's loan portfolio composition as of December 31, 2001.

Loan Category	\$ (000)	%
Commercial Real Estate Loans	7,878	37%
Residential Real Estate Loans	5,942	28%
Construction Land Development	2,258	11%
<i>Subtotal Real Estate Loans</i>	16,078	76%
Commercial Loans	3,780	18%
Consumer Loans	1,182	6%
Other	1	-
Total	21,041	100%

DESCRIPTION OF ASSESSMENT AREA

FNB has designated its AA as two adjacent census tracts that are part of the Brownsville/Harlingen, Texas Metropolitan Statistical Area (MSA #1240). One census tract, which consists of the city of South Padre Island, is an upper-income tract. The other census tract includes the cities of Port Isabel, Laguna Heights, and Laguna Vista and is designated as middle-income. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The family income distribution of the AA is 19.8% low-income, 16.6% moderate-income, 18.1% middle-income, and 45.5% upper-income. The updated 2001 U.S. Department of Housing and Urban Development (HUD) Median Family Income for the MSA is \$29,100.

Tourism is the area's primary industry with the shrimp business being secondary. Major employers consist of hotels, condominiums, restaurants, a net manufacturer, a shell distributor, and other service organizations. Competition consists of one other community bank and the branch offices of three regional banks.

In September of 2001, a barge accident resulted in the three-month closure of the Queen Isabella Causeway, which is the island's only bridge connecting it to the mainland. While not at the peak of the tourist season, the event had a temporary, but harsh impact on the community's local economy and was specifically devastating to the restaurants and hotels during this timeframe. However, this event has not had a long-term impact on the bank's ability to meet the credit needs of the community.

As part of our examination, we contacted a director at a branch of a federal agency in Port Isabel. We also reviewed the information obtained from a recent contact with the director of an economic development organization in South Padre Island. One contact characterized the Port Isabel economy as slow. This contact related that shrimp farming has hurt the local traditional shrimping industry. The director of the economic development organization indicated that tourism is obviously the community's mainstay and reaffirmed the adverse economic impact caused by the closing of the causeway in the fall. Both contacts concur that the high real estate values of the area hinder residential lending activity for low- and moderate-income individuals. Both contacts agree that the primary credit need for the area is for small business lending.

The following table reflects additional demographic information based on the 1990 census:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	2,536
Number of Households	3,329
<i>Geographies</i>	
Number of Census Tracts/BNA	2
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	50%
% Upper-Income Census Tracts/BNA	50%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$18,731
2000 HUD-Adjusted MFI	\$27,900
2001 HUD-Adjusted MFI	\$29,100
<i>Economic Indicators</i>	
Unemployment Rate	2.81%
1990 Median Housing Value	\$90,807
% of Households Below Poverty Level	24.60%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan Sampling Process

Our loan sample focused on the bank's primary product lines, which include commercial real estate, commercial, and residential loans. The commercial and commercial real estate loans sample consisted of a sample of loans made in the AA since the prior CRA examination. The residential loans sample consisted of loans reported on the bank's Home Mortgage Disclosure Act loan application registers for 1998 through 2001.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes - Meets Standards for Satisfactory Performance.

The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes, given the demographics of the AA.

Our sample indicated that there were few home purchase and home refinance loans to low- and moderate- income families. This is understandable given the typically high land values in the area, which makes it difficult for low- and moderate-income families to qualify for residential loans. The sample indicated that the number of home improvement loans to low-income families was close to the percentage of low-income families in the AA. The sample also indicated that the number of home improvement loans to moderate-income families exceeded the level of moderate-income families in the AA. The following table depicts the distribution of residential loans by income level.

RESIDENTIAL REAL ESTATE (Originations)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19.8		16.6		18.1		45.5	
Loans since prior CRA review (1998-2001)	% of Number	% of Amount						
Home Purchase	1.9%	1.5%	7.7%	3.4%	13.5%	4.9%	76.9%	90.2%
Home Refinance	0%	0%	12.5%	9.7%	0%	0%	87.5%	90.3%
Home Improvement	17.4%	5.6%	26.1%	5.3%	21.7%	18.2%	34.8%	70.9%

Our sample of commercial and commercial real estate loans in the AA indicated a good distribution of loans to small businesses. Our sample reflected that 90% of the number and 95% of the dollar volume of loans were to businesses with annual revenues equal to or less than \$1 million.

BORROWER DISTRIBUTION OF LOANS TO SMALL BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *	90%	5%
% of Bank Loans in AA #	90%	10%
% of Bank Loans in AA \$	95%	5%

* 5% of businesses did not report revenues

Loan-to-Deposit Ratio - Meets the Standards for Satisfactory Performance.

FNB's loan-to-deposit ratio is reasonable and commensurate with its size, competition, and available resources, and with the demographics of the AA. The average loan-to-deposit ratio for the last seventeen quarters was 46.33%. The loan-to-deposit ratio for the seventeen quarters ranged from 40.66% to 53.57%. The only other community bank in the AA is South Padre Bank N.A., which has been open for three years. While these two banks are similarly situated because of the market they operate in, the competitor's loan-to-deposit ratio is skewed by the newness of the institution. Also, FNB has non-lendable public funds that represent roughly 16% of total deposits at December 31, 2001. The AA does have branches from three other regional banks; however, the loan-to-deposit ratios for these individual branches are not available.

Institution	Assets (as of 12/31/01)	Average LTD Ratio
South Padre Bank N.A.	23,718,000	77.15%
First National Bank of South Padre Island	47,284,000	46.33%

Lending in Assessment Area - Exceeds Standards for Satisfactory Performance.

A substantial majority of the bank's lending activity is within its AA. As illustrated in the following table, 92% of the number and 97% of the dollar amount of sample loans were made in the AA.

TOTAL SAMPLE LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	18	90%	4,605	94%	2	10%	297	6%
Home Purchase	51	96%	4,433	99%	2	4%	35	1%
Home Refinance	9	100%	775	100%	0	0%	0	0%
Home Improvement	41	87%	526	94%	6	13%	33	6%
Total Reviewed	119	92%	10,339	97%	10	8%	365	3%

Geographic Distribution of Loans - Not rated.

The bank's AA does not include any low- or moderate-income areas. For that reason, an analysis of the geographical distribution of the bank's lending efforts would not be meaningful.

Responses to Complaints - Not rated.

FNB has not received any complaints or public comments regarding its CRA performance during this evaluation period.

Fair Lending Review

An analysis of 1998 through 2002 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of this 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 examination was performed as of September 30, 1997.