



LARGE BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Public Disclosure

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Community Reinvestment Act Performance Evaluation

**Laredo National Bank
Charter Number: 5001**

**700 San Bernardo Avenue
Laredo, TX 78040**

Office of the Comptroller of the Currency

**Mid-size/community Banks
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Dallas, TX 75201**

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, and should not 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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Overall CRA Rating

Institution’s CRA Rating: This institution is rated **Satisfactory**.

The following table indicates the performance level of **The Laredo National Bank** with respect to the Lending, Investment, and Service Tests:

Performance Levels	(Name of Depository Institution) Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			X
High Satisfactory	X	X	
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- LNB’s branch distribution is excellent. The bank has opened branches in low- and moderate-income census tracts in order to make its loan and deposit products readily accessible to low- and moderate-income individuals.
- LNB is a leader in providing an excellent level of community development services that meet critical credit needs.
- The bank’s lending activity in the full scope assessment areas is excellent for home mortgage products and small loans to businesses.
- Over 90% of the bank’s small business, home purchase, home improvement, and refinance loans were originated or purchased within its assessment areas.
- LNB’s distribution of loans by income level of geography is good for home mortgage products and small loans to businesses in the Laredo MSA assessment area and is considered excellent in the Houston MSA and San Antonio MSA assessment areas.
- LNB’s home mortgage product distribution of loans by borrower income is good in the Laredo MSA and excellent in the San Antonio MSA and Houston MSA. The distribution of loans to small businesses is good in all full scope assessment areas.
- The level of community development investments is good. These investments have addressed needs such as affordable housing and education services to low- and moderate-income individuals.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate - Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. The U.S. Census Bureau has established BNAs in conjunction with state agencies.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the U.S. Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten-year census and an average population of 4,000.

Community Development (CD) - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Full-Scope Review - Performance under the lending, investment, and service tests is analyzed considering fully understood performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography - A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA) - The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, withdrawn).

Home Mortgage Loans - Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwellings loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Limited-Scope Review - Performance under the lending, investment, and service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

Low-Income - Income levels that are less than 50 percent of the median family income.

Median Family Income (MFI) - The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Statistical Area (MSA) - Area defined by the director of the U.S. Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Middle-Income - Income levels that are at least 80 percent and less than 120 percent of the MFI.

Moderate-Income - Income levels that are at least 50 percent and less than 80 percent of the MFI.

Small Loans to Businesses - Loans with original amounts of \$1 million or less that are: (1) secured by non-farm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

Small Loans to Farms - Loans with original amounts of \$500,000 or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

Tier 1 Capital - The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income - Income levels that are 120 percent or more of the MFI.

Description of Institution

The Laredo National Bank (LNB) is a mid-sized intrastate bank established in 1892 and headquartered in Laredo, Texas. As of September 30, 2000, LNB reported total assets of \$2.2 billion. LNB is a wholly owned subsidiary of Laredo National Bancshares, Inc. (LNBI), a multi-bank (two) holding company. As of September 30, 2000, LNBI reported assets of \$2.4 billion. LNB's only affiliate is the other bank subsidiary of the holding company, South Texas National Bank of Laredo (STNB), a community bank also based in Laredo. LNB has two subsidiaries, Texas Independent Insurance Group (TIG) and Homeowners Loan Corporation (HLC). The activities of the affiliate bank and the subsidiaries were not factored into this performance evaluation.

In addition to the main office in downtown Laredo, LNB has four branches and sixteen proprietary automated teller machines (ATMs) in the Laredo MSA AA. LNB's distribution network outside of Laredo includes branch offices in the metropolitan areas of Houston (six), McAllen (two), San Antonio (five), Corpus Christi (two), and Brownsville (one). In addition, LNB has twelve ATMs outside of Laredo. The branches in Laredo account for approximately 81% of LNB's total deposits and 55% of total CRA reportable loans. The Houston, McAllen, San Antonio, and Corpus Christi branches account for 7%, 6%, 5%, and 1% of total deposits, respectively. CRA reportable loans in markets outside of the Laredo MSA AA include San Antonio at 15% and Houston at 12%, while all of the other assessment areas have less than 10% of total reportable CRA loans.

A large percentage of LNB's deposits and loans are derived from international customers. LNB's primary strategy is to serve the commercial and private banking needs of these customers, along with the large Hispanic populations in the domestic markets in which it operates. The bank's business strategy emphasizes building and maintaining relationships with its customers. As a result, the bank offers adjustable rate mortgage products so they may originate and service the loans thus maintaining the relationship rather than offering a fixed rate product that is typically sold in the secondary market. As of September 30, 2000, LNB reported total loans of \$1.1 billion comprising 52% of total assets. The bank's loan-to-deposit ratio was 57.36%. This ratio increases significantly to 143% after discounting foreign loans and deposits. The loan portfolio is diversified as follows: commercial (32%), commercial real estate (38%), residential real estate (22%), and consumer loans (7%).

There are no legal or financial impediments to LNB's ability to help meet the credit, investment, and service needs of its assessment areas. LNB's Tier 1 Capital level is \$162 million representing 7.26% of average assets. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

LNB has seven assessment areas. All areas consist of whole geographies, do not reflect illegal discrimination, do not arbitrarily exclude low or moderate-income geographies, and overall meet the requirements of the CRA regulation. All of the assessment areas are comprised of counties instead of whole MSAs and include Webb County (Laredo MSA), Bexar County (San Antonio MSA), Hidalgo County (McAllen MSA), Harris County (Houston MSA), Nueces County (Corpus Christi MSA), Cameron County (Brownsville MSA), and Willacy County (Non-Metropolitan area). All assessment areas have full service branches with the exception of Willacy County. LNB includes Willacy County as an assessment area because they actively market their loan products in this area located between Hidalgo and Cameron Counties.

Annually, LNB participates in the U.S. Treasury Bank Enterprise Award program from the U.S Treasury Department. This award is given to those banks that make loans in low-income, high unemployment

neighborhoods. The Treasury designates these neighborhoods as “Distressed Communities”. The intent of the award is to serve as an incentive to banks to do business in areas that are underserved by the traditional banking community. LNB has 13 full service branch locations located in Distressed Communities. As a result, the bank was granted over \$440,000 in 1999 and \$750,000 in 2000 for its lending performance in Distressed Communities in specific census tracts in Laredo, Houston, Corpus Christi, and all tracts in Willacy and Cameron Counties. Some of these loan types such as small business loans and home mortgage products are included in the scope of this CRA evaluation. However, this CRA evaluation does not include an evaluation of consumer loans while the BEA award includes this loan type.

LNB’s CRA performance was last evaluated as of March 20, 1998. At that time LNB’s overall level of performance was rated “Satisfactory”.

Scope of the Evaluation

Evaluation Period/Products Evaluated

This Performance Evaluation assesses the bank's performance under the Lending, Investment, and Service Tests. In evaluating the bank's lending performance, we reviewed their residential mortgage loans subject to filing under HMDA and small loans to businesses. With the exception of community development (CD) loans, the evaluation period for the Lending Test is January 1, 1998 through September 30, 2000. For CD loans, the Investment Test and Services Test, the evaluation period is March 20, 1998 through February 5, 2001.

Data Integrity

As a part of the CRA evaluation, we tested the accuracy of LNB's small loans to businesses and HMDA loan data. We did not identify any significant errors related to the HMDA loan data. However, errors were noted with regards to the reporting of small loans to businesses. Bank management performed a 100% review of small loans to businesses to correct this data for 1998, 1999, and year 2000. We evaluated the bank's corrected data and found it to be reliable. However, publicly reported CRA data for the small loans to businesses for 1998 and 1999 is incorrect. This evaluation is based on accurate data.

Community Development (CD) loans, investments, and services submitted by LNB management were verified to ensure that they met the regulatory definition for CD. The bank did not publicly report any CD loans. However, the bank originated CD loans during the evaluation period, so they were considered in this review.

Selection of Areas for Full-Scope Review

We performed a full-scope review of the Laredo MSA AA since this area represents 81% of the bank's deposits, 55% of CRA reportable loans, and 24% of the bank's branch network during the evaluation period. We also selected the San Antonio MSA and Houston MSA AAs as a full scope review since these areas contain the next to largest volume of CRA reportable loans at 15% and 12%, respectively. Also, these assessment areas are considered significant to the bank's overall CRA performance since LNB has six branches, or 29% of the bank's branch network in the Houston MSA AA, and five branches, or 24% of the bank's branch network in the San Antonio MSA AA. Subsequent to the previous CRA examination, management has made a conscious effort to strategically locate a high percentage of these branches in low and moderate-income census tracts in order to target under banked and distressed communities.

Areas receiving limited-scope reviews include the Brownsville MSA AA, McAllen MSA AA, Corpus Christi MSA AA, and the Willacy Non-Metropolitan area. Refer to the table in Appendix A for more information.

Ratings

The bank's overall rating is based primarily on those areas that received full-scope reviews. Overall conclusions were weighted heavier in the Laredo MSA AA since this area accounts for 81% of the total deposit base and 55% of the CRA reportable loans. In the Laredo MSA AA, we did not give any weight to the loans to small business distribution analysis, since there is a large percentage of loans where the company's revenues are unknown. However, we weighted the geographic distribution of small loans to businesses heavier than other CRA reportable loans, since 62% of the number of CRA reportable loans derived from the three full scope assessment areas are from this lending category. For home mortgage products, home purchase loans were weighted a little heavier than home improvement and refinance loans since they represent a larger percentage of the total number of CRA reportable loans.

We gave little weight to small loans to farms since LNB made only 69 small loans to farms or less than 2% of the total number of CRA reportable loans. Although given little weight, small loans to farms in the Laredo MSA AA was weighted heavier than other assessment areas since the bank's market rank for small farm loans is number one in this area.

Other

We made three community contacts during this examination for the Laredo MSA AA. The types of organizations contacted include an affordable housing organization, a community-based development intermediary, and a city administrator. All of the contacts identified affordable housing as the most critical need for the Laredo MSA. This is directly attributed to the high cost of housing coupled with the very low median income and high poverty rate in Webb County. As a result, several local financial institutions have partnered with nonprofit and city organizations to provide affordable housing in the County. Another identified need is small business micro lending and start up counseling to small businesses. One of the contacted organizations recently started handling micro loan packages and is assisting small businesses with planning, budgets, and education. The area lenders are responsible for providing the financing. Another contact stated that they plan to start a micro loan program in year 2002.

We reviewed two community contacts during the examination for the San Antonio MSA AA. The types of organizations contacted include an affordable housing organization and an economic development organization. The identified needs were more flexible financing for local affordable housing programs, flexible financing for small business loans, additional lenders that will participate in these programs, and the need for flexible programs to purchase homes that need to be rehabilitated. Also, one contact stated that general banking needs were being satisfactorily met by product and service availability but they were not being met by accessibility. There is a need for more banking locations to make products and services more accessible to elderly, handicapped, and low- and moderate-income people who do not have the resources to visit a location.

We reviewed seven community contacts that were made prior to this examination for the Houston MSA AA. The types of organizations contacted include the City, and various business organizations. The identified needs were affordable housing and venture capital to small businesses. The organizations stated that the opportunities for financial institutions to participate in affordable housing and small business loan programs are plentiful.

Fair Lending Review

We performed a comparative file review analysis of home purchase loan applications with race/national origin selected as the prohibited basis factor. The sample included 40 Hispanic denials and 48 White approvals. These applications were accepted during the period of January 1, 1999 through December 31, 1999. The purpose of the review was to determine whether denied Hispanic applicants were treated as equitably in the underwriting process as approved White applicants. We did not identify any violations of the substantive provisions of the anti-discrimination laws and regulations.

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the lending test is rated "High Satisfactory". Based on full-scope reviews, the bank's performance is good in the Laredo MSA AA, and excellent in both the San Antonio MSA AA and Houston MSA AA.

Lending Activity

Refer to Table 1 in appendix C for the facts and data used to evaluate the bank's lending activity.

LNB's lending volume in the Laredo MSA AA, San Antonio MSA AA, and Houston MSA AA is excellent. Since the March 1998 CRA evaluation, LNB's loans have increased by 43% while the deposit base has grown by 27%. The bank's loan to deposit ratio has grown since the previous CRA examination from 52% to 58% as of September 30, 2000. The bank's loan to deposit ratio in the three full scope AAs after excluding foreign loans and deposits, is Laredo -143%, San Antonio - 192%, and Houston - 372%.

Laredo MSA AA:

The bank's loan volume in this assessment area is excellent. LNB ranks number one with a deposit market share of 41% in Webb County. The bank is also a dominant lender in Webb County as it ranks at least in the top five in market share for each CRA reportable loan product in 1999. Market share rank and percentages for each CRA reportable loan product is broken down as follows: small loans to businesses - #3 (19.3%), small loans to farms - #1 (39.29%), home purchase loans - #5 (4.42%), home improvement loans - #1 (31.51%), and home refinance loans - #2 (9.18%). Although the percentage of market share for each CRA reportable loan product is not as high as the bank's overall deposit market share, it should be noted that there are only seven financial institutions that take in deposits in Webb County. This number is very small compared to the number of lenders in the assessment area competing for CRA reportable loans. For example, the number of CRA reportable lenders in 1999 by CRA product is as follows: small business - 32, home purchase - 83, home improvement - 21, and refinance loans - 83. The large number of non deposit taking institutions such as mortgage companies, mobile home lenders, finance companies, and various other lenders dilutes the lending market share numbers. The deposit market share numbers are not diluted to the same extent since a vast majority of the CRA lenders did not have a share of the deposits in Webb County.

San Antonio MSA AA:

Overall, lending activity in this assessment area is considered excellent. The bank has not been established long in this market. Two of the five branches located in this assessment area were opened subsequent to the previous CRA examination. The bank's market share in deposits is .45% or ranks number 15. Market share rank and percentages for each CRA reportable loan product is broken down as follows: small loans to businesses - #18 (1.03%), small loans to farms - #8 (2.78%), home purchase loans - #88 (.15%), home improvement loans - #32 (.32%), and home refinance loans - #112 (.13%). Small loans to businesses represent the bulk of loans in this assessment area at 70%, therefore, the evaluation of this loan product should be weighted the heaviest. Also, there is a large number of mortgage and finance companies and other financial institutions that do not take in deposits that make home mortgage products and small business loans in Bexar County. This fact needs to be taken into consideration when comparing the bank's deposit market share rank to its loan market share rank. For example, the number of CRA reportable lenders in 1999 by CRA product is as follows: small business - 107, home purchase - 281, home improvement - 76, and refinance loans - 231. There were only 34 financial institutions that take in deposits from Bexar County. The deposit market share numbers are not diluted to the same extent since the majority of the CRA lenders did not have a share of the deposits in Bexar County.

Overall, Bexar County represents approximately 4.53% of the bank's total deposits compared to 14.73% of CRA reportable loans. This comparison shows that on a percentage basis the bank is making more loans in this assessment area than deposits gathered. This is an indicator of excellent lending volume.

Houston MSA AA:

Overall, lending volume in this assessment area is excellent. The bank's market share in deposits is .32% or ranks number 35. Market share rank and percentages for each CRA reportable loan product is broken down as follows: small loans to businesses - #29 (.29%), small loans to farms - #23 (.54%), home purchase loans - #219 (.02%), home improvement loans - #49 (.21%), and home refinance loans - #203 (.02%). Small loans to businesses represent the bulk of loans in this assessment area at 64%, therefore, this loan product should be weighted the heaviest. Also, there is a very large number of home mortgage and finance companies and other financial institutions that do not take in deposits that make home mortgage products and small loans to businesses in Harris County. This fact needs to be taken into consideration when comparing the bank's deposit market share rank to its loan market share rank. For example, the number of active lenders originating loans in 1999 by CRA product is as follows: small business - 180, home purchase - 436, home improvement - 159, and refinance loans - 347. There were only 86 financial institutions that take in deposits from Harris County. The deposit market share numbers are not diluted to the same extent since a vast majority of the CRA reportable lenders did not have a share of the deposits in Harris County.

Overall, Harris County represents approximately 7.17% of the bank's total deposits compared to 11.71% of CRA reportable loans. This comparison shows that on a percentage basis the bank is making more loans in this assessment area than deposits gathered. This is an indicator of excellent lending volume.

Distribution of Loans by Income Level of the Geography

LNB's overall distribution of loans by income level of geographies is good. This is based on their good distribution of loans by geography in the Laredo MSA AA and excellent distribution of loans by income level of geographies in the San Antonio MSA AA and Houston MSA AA. The geographic distribution analysis of the Laredo MSA AA emphasizes performance in moderate-income census tracts since there are no census tracts designated as low-income.

Home Mortgage Loans

Refer to Tables 2, 3 and 4 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases. The bank's geographic distribution of home mortgage loans is good in the Laredo MSA AA, and excellent in the San Antonio MSA AA and Houston MSA AA.

Home Purchase Loans:

Laredo MSA AA:

The bank's geographic distribution of home purchase loans is adequate in the Laredo MSA AA. The distribution of home purchase loans is less than the percentage of owner-occupied housing units in moderate-income census tracts. Also, the bank's 2.79% market share in moderate-income census tracts is below the bank's overall market share for home purchase loans at 4.42%. There are performance context issues in Webb County that affect the demographic comparable percentages. Laredo is one of the least affordable places to live in the United States. The high cost of housing combined with the low median income has to be taken into consideration when evaluating the bank's geographic lending performance. Only a few land-owners control the bulk of available land for development in Laredo. This has made the cost of land very expensive. Therefore, affordable housing is one of the most pressing needs in the Laredo MSA AA. Also, approximately 48% of the households that live in moderate-income census tracts have incomes below the poverty level. It is very difficult for people with very low incomes to qualify for home purchase mortgages.

San Antonio MSA AA:

The bank's geographic distribution of home purchase loans is good in the San Antonio MSA AA. The distribution of home purchase loans is less than the percentage of owner-occupied housing units in low-income and moderate-income census tracts. However, the bank's market share in low-income and moderate-income census tracts exceeds its overall market share. More weight was placed on the market share data due to the large percentage of families living below the poverty level in the low-income census tracts at 49% and relative high poverty rate in the moderate-income census tracts of 29%.

Houston MSA AA:

The bank's geographic distribution of home purchase loans is excellent in the Houston MSA AA. The distribution of home purchase loans exceeds the percentage of owner-occupied housing units in low-income and moderate-income census tracts. Also, the bank's market share in low-income and moderate-income census tracts exceeds its overall market share.

Home Improvement Loans:

Laredo MSA AA:

The bank's geographic distribution of home improvement loans is excellent in the Laredo MSA AA. The percentage of home improvement loans made in moderate-income census tracts is near to the percentage of owner-occupied units in moderate-income census tracts. The bank is a leader in making home improvement loans to moderate-income census tracts as evidenced by its market share of almost 35%. This exceeds its overall market share for home improvement loans at 32%.

San Antonio MSA AA:

The bank's geographic distribution of home improvement loans is excellent in the San Antonio MSA AA. The percentage of home improvement loans made in low-income census tracts is near to the percentage of owner-occupied units in low-income census tracts while the percentage of loans made in moderate-income census tracts exceeds the percentage of owner-occupied units in moderate-income census tracts. Also, the bank's market share in low-income and moderate-income census tracts exceeds its overall market share.

Houston MSA AA:

The bank's geographic distribution of home improvement loans is excellent in the Houston MSA AA. The percentage of home improvement loans made in low-income census tracts at 16% and moderate-income census tracts at 47% far exceeds the percentage of owner-occupied units in low-income census tracts at 6% and moderate-income census tracts at 23%. Also, market share in low-income and moderate-income census tracts exceeds its overall market share.

Refinance Loans:

Laredo MSA AA:

The bank's geographic distribution of refinance loans is good in the Laredo MSA AA. The percentage of refinance loans made in moderate-income census tracts is below the percentage of owner-occupied units in moderate-income census tracts. However, the bank's market share in moderate-income census tracts substantially meets its overall market share. More weight was given to the market share analysis due to the performance context issues discussed under the home purchase loan section.

San Antonio MSA AA:

The bank's geographic distribution of refinance loans is excellent in the San Antonio MSA AA. The percentage of refinance loans made in low-income census tracts exceeds the percentage of owner-occupied units in low-income census tracts. The percentage of refinance loans made in moderate-income census tracts is near to the percentage of owner-occupied units in moderate-income census tracts. Also, the bank's market share in low-income and moderate-income census tracts exceeds its overall market share. The bank's loan performance for refinance loans is particularly strong considering the large percentage of families living below the poverty level in the low-income census tracts at 49% and relative high poverty rate in the moderate-income census tracts of 29%.

Houston MSA AA:

The bank's geographic distribution of refinance loans is excellent in the Houston MSA AA. The percentage of refinance loans made in low-income census tracts at 9.09% and moderate-income census tracts at 40.91% exceeds the percentage of owner-occupied units in low-income census tracts at 5.76% and moderate-income census tracts of 22.64%, respectively. Also, the bank's market share in moderate-income census tracts exceeds its overall market share. The bank's market share in low-income census

tracts is below its overall market share. Although the bank had a zero percent market share in low-income census tracts for 1999, 20% of refinance originations were made in low-income census tracts in year 2000.

Small Loans to Businesses

Refer to Table 5 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses. The bank's geographic distribution of home mortgage loans is good in the Laredo MSA AA, and excellent in the San Antonio MSA AA and Houston MSA AA.

Laredo MSA AA:

The bank's geographic distribution of small loans to businesses is good in the Laredo MSA AA. Overall, the percentage of small loans to businesses made in moderate-income census tracts is below the percentage of small businesses in moderate-income census tracts. However, the bank's market share in moderate-income census tracts at 18.1% substantially meets its overall market share of 19.31%.

San Antonio MSA AA:

The bank's geographic distribution of small loans to businesses is excellent in the San Antonio MSA AA. Overall, the percentage of small loans to businesses made in low-income and moderate-income census tracts exceeds the percentage of businesses located in low-income and moderate-income census tracts. The bank's market share in low-income and moderate-income census tracts exceeds its overall market share.

Houston MSA AA:

The geographic distribution of small loans to businesses is excellent in the Houston MSA AA. Overall, the percentage of small loans to businesses made in low-income and moderate-income census tracts exceeds the percentage of businesses located in low-income and moderate-income census tracts. The bank's market share in low-income and moderate-income census tracts exceeds its overall market share.

Small Loans to Farms

Refer to Table 6 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to farms. LNB's distribution of small loans to farms is excellent in the Laredo MSA AA. A geographic analysis of small loans to farms in the Houston MSA AA and San Antonio MSA AA was not performed since it would not be meaningful.

Laredo MSA AA:

LNB's geographic distribution of small loans to farms is excellent in the Laredo MSA AA. The percentage of small loans to farms made in moderate-income census tracts exceeds the percentage of farms in moderate-income census tracts. Also, the bank's market share in moderate-income census tracts at 41.67% exceeds its overall market share of 39.29%.

LNB only made three small loans to farms in the San Antonio MSA AA and Houston MSA AA. Therefore, a geographic analysis of these loans would not be meaningful. This did not negatively affect the bank's loan performance rating.

Lending Gap Analysis

Analysis of home mortgage and small business/small farm lending activity in the Laredo MSA AA, San Antonio MSA AA, and Houston MSA AA revealed no unexplained conspicuous gaps in lending.

Inside/Outside Ratio

On a bank level, LNB has an excellent record of lending inside of its assessment areas. We performed an analysis of the bank's record of making home mortgage, small loans to businesses, and small loans to farms in its seven assessment areas. Over 90% of each HMDA product (home purchase, home improvement, and refinance) has been lent inside of the bank's assessment areas and almost 95% of small loans to businesses have been made inside of the assessment areas. The percentage of small loans to farms inside of the bank's assessment areas is good at 68%. Less weight was placed on the bank's small farm lending due to the small volume of these loans. This performance was positively factored into the overall analysis of the geographic distribution of lending.

Distribution of Loans by Income Level of the Borrower

LNB's overall distribution of loans by income level of borrowers is good. This is based on overall good performance in the Laredo MSA AA and excellent performance in the San Antonio and Houston MSA AAs.

Home Mortgage Loans

Refer to Tables 7, 8, and 9 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases. The bank's distribution of home mortgage loans by borrower income is good in the Laredo MSA AA and excellent in the San Antonio MSA AA and Houston MSA AA.

Home Purchase Loans:

Laredo MSA AA:

The bank's distribution of home purchase loans by income level of borrowers is excellent. The bank's distribution of home purchase loans to low-income borrowers is below the percentage of low-income families. This performance, however, was not considered negatively. This is due to Laredo being a high cost market and one of the least affordable areas in the country. The updated median income is approximately \$31 thousand while the updated median cost of a home is approximately \$99 thousand. The large disparity between low-incomes and high housing cost explains why it is virtually impossible for the bank to meet the demographic comparable. Due to the existing housing stock not being affordable to many low- and moderate-income people, there has been recent growth in the mobile home market. LNB does not actively participate in mobile home lending. The bank's market share to low-income borrowers at 8.33% almost doubles its overall market share of 4.42%. This is indicative of excellent performance. More weight was placed on the market share analysis than the demographic comparable analysis due to the performance context factors explained above.

The bank's distribution of home purchase loans to moderate-income borrowers is near the percentage of moderate-income families in the Laredo MSA AA. The bank's market share of home purchase loans to moderate-income borrowers substantially meets its overall market share. This is indicative of excellent performance when considering the performance context factors previously discussed.

San Antonio MSA AA:

The bank's distribution of home purchase loans by income level of borrowers is adequate in the San Antonio MSA AA. The distribution of home purchase loans to low-income and moderate-income borrowers is below the percentage of low-income and moderate-income families. While the bank's market share to low-income borrowers substantially meets its overall market share, its market share to moderate-income borrowers is below its overall market share. The percentage of households below the poverty level at 17% contributes to the difficulty of meeting the demographic comparable.

Houston MSA AA:

The bank's distribution of home purchase loans by income level of borrowers is excellent in the Houston MSA AA. The percentage of LNB's home purchase loans to low-income borrowers at 22.02% is near the percentage of low-income families at 23.16%. The percentage of LNB's loans to moderate-income borrowers at 27.52% far exceeds the percentage of moderate-income families at 16.84%. The bank's market share to low-income borrowers exceeds its overall market share while its market share to moderate-income borrowers is the same as its overall market share.

Home Improvement Loans:

Laredo MSA AA:

The bank's distribution of home improvement loans by income level of borrowers is excellent. The bank's distribution of home improvement loans to low-income borrowers is below the percentage of low-income families. However, its distribution to moderate-income borrowers far exceeds the percentage of moderate-income families. The bank's market share to low-income borrowers at 31.8% and its market share to moderate-income families at 29.41% exceeds its overall market share and substantially meets its overall market share, respectively. The bank's performance is strong after considering the performance context issues previously discussed for the Laredo MSA AA.

San Antonio MSA AA:

The bank's distribution of home improvement loans by income level of borrowers is excellent. The percentage of the bank's loans to low-income borrowers is near the percentage of low-income families and the percentage of loans to moderate-income borrowers far exceeds the percentage of moderate-income families. The bank's market share to low-income borrowers is below its overall market share while its market share to moderate-income families is more than three times its overall market share.

Houston MSA AA:

The bank's distribution of home improvement loans by income level of borrowers is excellent. The distribution of the bank's loans to low-income and moderate-income borrowers exceeds the percentage of low-income and moderate-income families, respectively. Also, the bank's market share to low-income and moderate-income borrowers far exceeds its overall market share.

Refinance Loans:

Laredo MSA AA:

The bank's distribution of refinance loans by income level of borrowers is adequate. The distribution of home purchase loans to low-income borrowers is below the percentage of low-income families. LNB's distribution to moderate-income borrowers is near the percentage of moderate-income families. The bank's market share to low-income borrowers at 0% is below its overall market share of 9.18%. However, its market share to moderate-income borrowers at 8.97% substantially meets its overall market share of 9.18%.

San Antonio MSA AA:

The bank's distribution of refinance loans by income level of borrowers is good. The distribution of the bank's loans to low-income borrowers is below the percentage of low-income families while the distribution of loans to moderate-income borrowers exceeds the percentage of moderate-income families. The bank's market share to low-income borrowers is more than three times its overall market share while its market share to moderate-income families is below its overall market share.

Houston MSA AA:

The bank's distribution of refinance loans by income level of borrowers is excellent. The distribution of the bank's loans to low-income borrowers is below the percentage of low-income families while the distribution of loans to moderate-income borrowers almost doubles the percentage of moderate-income families. The bank's market share to low-income and moderate-income borrowers exceeds its overall market share.

Small Loans to Businesses

Refer to Table 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

Laredo MSA AA:

The bank has a high percentage of small loans to businesses with unknown revenues at 33% (479). Due to the relatively high percentage of small loans to businesses with unknown revenues, a reliable conclusion regarding the bank's performance could not be reached. This is because it is not determinable whether the 479 businesses with unknown revenues have a higher or lower proportion than the bank's small loans to businesses. This does not positively or negatively affect the bank's lending test rating since this manner of reporting is allowed under the CRA regulation.

San Antonio MSA AA:

The bank's loan distribution to small businesses is good. The percentage of bank loans to businesses with revenues less than \$1 million is less than the percentage of businesses with revenues less than \$1 million. However, the bank's market share to businesses with revenues less than \$1 million exceeds its overall market share.

Houston MSA AA:

The bank's loan distribution to small businesses is good. The percentage of bank loans to businesses with revenues less than \$1 million substantially meets the percentage of businesses with revenues less than \$1 million. Similarly, the bank's market share to businesses with revenues less than \$1 million substantially meets its overall market share.

Small Loans to Farms

Refer to Table 11 in the appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

Laredo MSA AA:

The distribution of small loans to farms is excellent. LNB’s percentage of small loans to small farms (farms with annual revenues less than \$1 million or less) exceeds the percentage of small farms in the AA. Their market share of small loans to small farms substantially meets its overall market share.

San Antonio MSA AA:

We did not analyze LNB’s small loans to farm lending performance for this AA. The volume of loans was not significant enough to perform an analysis. The data is presented in the table for informational purposes only.

Houston MSA AA:

We did not analyze LNB’s small loans to farm lending performance for this AA. The volume of loans was not significant enough to perform an analysis. The data is presented in the table for informational purposes only.

Community Development Lending

Refer to Table 1 in appendix C for the facts and data used to evaluate the bank’s level of community development lending. The bank’s level of CD lending is good. It was also noted that several loans originated by the bank with CD purposes are not counted below because they fall under the definition of a small business loan and are included in the assessment of the bank’s small business lending.

Laredo MSA AA:

LNB's level of community development lending in the Laredo MSA is good. Eight loans totaling \$4,188,450 were funded in this AA. This total represents 63% of the total dollar volume of community development lending by LNB and is significant in relation to the size of the bank's presence in this market. Opportunities for community development lending in the MSA are characterized as limited to moderate. There is considerable competition for these types of loans within the assessment area. Some of the loans met critical needs in the AA such as affordable housing. None of the loans are considered complex while one is considered innovative. Example of CD loans in this AA that address affordable housing include:

- **Neighborhood Housing Services, Inc.** - Four loans totaling \$592 thousand were funded to this non-profit affordable housing agency. Three loans for \$15 thousand each were for operating costs, while a \$547 thousand loan was funded to purchase ten duplexes that will be used to rent to low-income families while they are going through this agency's homebuyer assistance program. The Laredo Webb NHS provides homebuyer education classes and offers grants for down payment and closing cost assistance. The duplex loan to NHS is innovative since this is the first time rental units have been built in Laredo for the sole purpose of renting to low-income families while they are preparing to become first time homeowners.
- **Subdivision Development Loans** - A loan totaling \$2.1 million was made to finance a 100% purchase of 129 acres for the continued development of an affordable subdivision named Santa Rita. The development will be known as Section 11 of the Santa Rita Subdivision in South Laredo. This subdivision is made up of primarily low- to moderate-income families. The cost of homes in this development ranges from \$30,000 to \$100,000 with an estimated average cost of \$62,000 that is well below the updated median price of a home at \$99,000. Due to the limited supply of land for affordable housing developments in Laredo, this loan is helping meet a critical credit need.

A loan totaling \$417 thousand was made to develop residential lots for low-income borrowers in a moderate-income census tract of Laredo, TX. The subdivision is known as the San Jose subdivision. This development consists of 65 homes with an average sales price of \$69,031 that is well below the updated median price of a home in Laredo of \$99,000. Over 51% of the residents purchasing homes in this development qualified and received down payment assistance and have incomes that qualify as low- and moderate-income.

San Antonio MSA AA:

LNB's level of community development lending in the San Antonio MSA AA is good.

LNB funded four community development loans totaling approximately \$1.7 million in the AA. The substantial majority were made in 2000. This total represents 25% of the total dollar volume of community development loans made by the bank. Opportunities for community development lending in the MSA are characterized as moderate. There is intense competition provided by larger financial institutions in the area. None of these loans were considered complex or innovative. However, one is considered flexible. Examples of community development loans that meet critical needs include:

- **Medical Services to Low- and Moderate-income People:** A loan totaling \$1,200,000 was made to construct a medical office building in a moderate-income census tract in southwest San Antonio, Texas. This census tract is surrounded by low- and moderate-income tracts. This medical facility is expected to serve persons from the immediate area, primarily those who have difficulty getting to the highly developed medical services sector in northwest San Antonio, a predominately middle- to upper-income area. Construction of this facility will help further stabilize the area around the only hospital in the area.
- **Accion Texas, Inc.** - LNB funded a revolving line of credit totaling \$100,000 that has a below market rate of interest to this non-profit organization whose primary purpose is to make very small loans to low-income borrowers to assist them in starting new businesses. This loan meets a critical credit need in Bexar County by making funds available to very small businesses that have difficulty in obtaining traditional bank financing.

Houston MSA AA:

LNB's level of community development lending in this assessment area is adequate. The bank has funded two community development loans in the Harris County AA. Both total \$362,500 and were made in 2000. This total represents 6% of the total dollar volume of community development loans made by the bank. Opportunities for community development lending in the Houston MSA AA are characterized as high. However, five of the bank's six branches have opened since the previous CRA evaluation. The bank is fairly new to this market. The CD loans made in this assessment area include:

- **Hispanic Housing and Education Corporation** - A \$162,500 loan to a non-profit affordable housing organization to purchase land that will be developed into a master planned community for low- and moderate-income families. The development will include retail outlets, affordable single family housing, as well as multi-family housing and medical facilities in a moderate-income census tract. This project meets the definition of community development by providing affordable housing to low- and moderate-income people and will help stabilize the area by creating permanent jobs in the immediate area.
- **Greater East End Management** - LNB made a \$200,000 working capital loan to this taxing authority whose primary purpose is to improve the safety, image, infrastructure, work force training

and encourage development in the east side of Houston, TX. The authority's targeted area includes 5 low-income and 9 moderate-income census tracts. This loan meets the community development definition by providing needed services to low- and moderate-income people living on the east side of Houston through infrastructure development and providing needed job training to unemployed residents in low- and moderate-income census tracts located on the east side of Houston.

Product Innovation and Flexibility

LNB normally offers only adjustable rate loan products. This fits in with the bank's strategy of maintaining and building relationships since they are able to retain and service these loans in its portfolio instead of offering a fixed rate product that is typically sold in the secondary market. The exception is that LNB offers a special affordable housing product for borrowers with incomes less than 80% of area median income. This product offers flexible criteria such as extended debt ratios, low down payment requirements, alternative credit history flexibility, and a 30-year fixed rate term. The flexible mortgage product is geared towards increasing the volume of loans originated to low- and moderate-income individuals. LNB often leverages this product with funds from the Federal Home Loan Bank (FHLB) of Dallas to maximize home ownership opportunities for low- and moderate-income families and individuals. Any loans originated under the programs have already been considered in the evaluation of home mortgage lending under the Lending Test. Examples of special loan programs where LNB has offered its flexible mortgage loan product include:

City Affordable Housing Loan Program - The City Affordable Housing Loan Program is a coordinated effort between the City of Laredo, who provides housing units and lots, the Laredo-Webb NHS, who provides down payment assistance and homeowners counseling, and LNB and other lenders who provide the permanent financing for the properties. Underwriting requirements for loans included in this program allow for reduced fees charged by the bank and grant funds to meet down payment requirements. The bank made 13 permanent flexible mortgage loans totaling \$612,490 under the City of Laredo Affordable Housing Program. The bank was a leader in working with the City to develop this program. Originally, they were the only lender to provide the permanent financing under the program. Other local lenders have followed their lead and are participating in the program.

Special NHS Program (NHS 7 "98" and NHS 6 "99") - This program provides affordable housing for low- and moderate-income people with disabilities. The bank participated in obtaining an FHLB grant for down payment and closing cost assistance for both programs. The bank made 5 permanent flexible mortgage loans totaling \$165,000 under the NHS 6 "99" program and 5 permanent flexible mortgage loans totaling \$179,955 under the NHS 7 "98" program.

Direct Loans - LNB has made a total of 18 direct permanent flexible mortgage loans totaling \$477,013 through its branch network. Fifteen totaling \$388,313 were made in the Laredo MSA AA and three totaling \$88,700 were made in the McAllen MSA AA.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's performance under the lending test in the Brownsville MSA AA is inconsistent with the bank's overall high satisfactory performance under the lending test. This is primarily attributed to the bank not being established in this market. The bank just recently opened its first branch in this market in January of 2001. The bank's performance in this AA did not have a negative impact on the overall lending test rating. The bank's performance under the lending test in the McAllen MSA AA is not inconsistent with the bank's overall high satisfactory performance under the lending test. The bank's performance under the lending test in the Corpus Christi MSA AA is not

inconsistent with the bank's overall high satisfactory performance under the lending test. The bank's performance under the lending test in the Willacy Non-Metropolitan area is inconsistent with the bank's overall high satisfactory performance under the lending test. The bank does not have a branch in this AA. It is included in the bank's AA due to its location between two of the bank's AA's - Hidalgo and Cameron Counties. Refer to Tables 1 through 11 in appendix C for the facts and data that support these conclusions.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the investment test is rated "high satisfactory". Based on full-scope reviews, the bank's performance in the Laredo MSA AA and San Antonio MSA AA is good. The bank's performance in the Houston MSA AA is excellent. The bank has made CRA qualified investments during the evaluation period that meet critical credit and community development needs. Total qualified investments and grants during the rating period equate to \$6.2 million or 3.5% of Tier 1 capital as of December 31, 2000. Competition for community development investments in the bank's assessment areas is high. LNB has provided competitive bids on CD investments that have not been accepted because of lower bids by other financial institutions. Also, the bank has offered to buy larger dollar amounts of current investments that have not been filled due to the high demand in the market place. The bank purchased one statewide investment during the evaluation period. This investment was allocated by the bank's pro-rata deposit share in each assessment area. Also, the bank purchased a regional investment. This investment was allocated 50% to the San Antonio MSA AA and 50% to the Houston MSA AA since both of these assessment areas were directly impacted by this investment. Refer to Table 12 in appendix C for the facts and data used to evaluate the bank's level of qualified investments.

Laredo MSA AA:

LNB has a good level of qualified community development investments and grants that directly benefit the Laredo MSA. During the evaluation period, LNB invested in two qualified community development investments in the Laredo MSA AA totaling \$1.8 million. LNB also made 26 grants and donations totaling \$113,250 to qualified community development initiatives directly benefiting the Laredo MSA. LNB has funded CRA qualified investments that help meet affordable housing needs in the assessment area. This is considered the most critical credit need due to the high cost of housing combined with the high poverty rate in the area. Moderate community development opportunities exist in this assessment area. As a result, competition for community development investments is fierce. Examples of community development investments made during this period and prior period investments that continue to have a positive impact include:

- **Laredo Housing Finance Corporation (LHFC)** - LNB purchased \$1 million in bonds offered by this issuer. The LHFC is a public nonprofit housing finance corporation of the State of Texas created on behalf of the City of Laredo, Texas. The primary purpose of the LHFC is to finance decent, safe, and sanitary housing for persons of low- and moderate-income. This bond issuance was made available to provide below market interest rates and/or down payment assistance for mortgage loans to low- and moderate-income people who are buying their first home. The bond program includes home loan counseling on how to purchase a home, budgeting, homeownership planning, and home maintenance. This bond issue helps meet a critical community development need in providing flexible affordable financing alternatives for low- and moderate-income people in Laredo, TX. Although the bank only purchased \$1 million of this investment, they initially tried to

purchase close to \$3 million. However, due to the competitive pressures in the market place, they were only able to purchase \$1 million.

- **Laredo Webb Neighborhood Housing Services** - The bank made grants in the amount of \$40,000 to this organization whose primary purpose is providing affordable housing opportunities for low-income people in Webb County. The NHS provides education, grants, low interest loans, and other assistance to low-income families. This is a very high impact organization that helps approximately 500 low- and moderate-income people on an annual basis obtain homes.
- **Habitat for Humanity of Laredo** - LNB made grants to this organization totaling \$15,000. This is a nonprofit organization that assists low-income families to obtain affordable housing.
- **LULAC Council #7 Charitable Association, Inc.** - The bank funded a grant in the amount of \$15,000 to this organization whose primary purpose is to provide scholarships to students that demonstrate financial need. The association also has provided financial assistance toward the purchase of shoes for elementary students that attend Kennedy-Zapata Elementary School located in south Laredo. The bank's \$15,000 grant was matched 70% by the National LULAC office. The actual impact is \$25,500 after considering the matching funds.
- **Texas Department of Housing and Community Affairs** - The bank bought \$1 million in Texas Department of Housing and Community Affairs mortgage revenue bonds, which will provide funds for the purchase of homes by low- and moderate-income borrowers. This is a statewide issue, approximately \$811 thousand of this issue is attributed to the Laredo MSA. This is based on 81% of the bank's deposit base being derived in the Laredo MSA. This investment provides a liquidity source for financial institutions to make low cost mortgage loans to low- and moderate-income borrowers. The mortgage loans are offered at below market rates to the bond participants.
- **Azteca Development** - The bank originally purchased 49% of the Azteca Development Low Income Housing Tax Credit for \$917 thousand. The bank received credit for this investment at the previous CRA examination. This investment has since paid down to \$451 thousand. Although this is a prior period investment, this investment was evaluated as still having a positive impact on the bank's overall investment rating. This LIHTC facilitated the completion of a 50 unit housing complex for low-income families in the Laredo MSA. This investment continues to have a high impact on addressing affordable housing needs in Laredo. Most of the renters of this project have very low-incomes that total less than 30% of median family income. This project assures low rents of less than 30% of the occupant's total income.

San Antonio MSA AA:

LNB's level of qualified contributions to community development initiatives reflects a good responsiveness to the community development needs of the Bexar County AA. LNB's qualified community development investments include 10 grants totaling \$22,000. The bank made 2 qualifying investments during this period totaling \$1,045,300. The bank made one qualified investment in a regional area (South Texas) that had a direct impact on this assessment area. The total investment amount was \$2 million of which \$1 million is allocated to this assessment area. LNB's contributions are considered high impact based on the activities of the recipients. The affordable housing and small business organizations have a record of leveraging donations very effectively. Investment opportunities in the MSA are considered moderate. Examples of community development investments made during this period include:

- **Texas Corporation Tax Credit Fund** - The bank purchased a total of \$2 million of this low-income housing tax credit of which \$1 million was allocated to the Bexar County AA. This is a low-income housing tax credit (LIHTC) fund that will facilitate the completion of five affordable housing properties in the state of Texas. The San Antonio project is called Villas at Costa Brava. This project consists of 250 units of new construction comprising \$6 million net equity or 29.2% of the fund's equity. Approximately 150 of the units are reserved for low-income residents and are offered at rents substantially below market rates. This investment is not considered innovative but is considered complex based on the various funding sources for these projects.
- **Affordable Housing Grants** - The bank made six donations totaling \$11,500 to the following organizations that promote affordable housing initiatives: Neighborhood Housing Services, Avenida Guadalupe, and Mexican American Unity Council.
- **Small Business Initiative Grants** - The bank made four donations totaling \$10,500 to the following organizations that promote financing initiatives to small businesses and provide economic development: ACCION, TX, San Antonio Small Business Development Center, and Rural Development and Finance Corporation.

Houston MSA AA:

LNB's level of qualified investments to community development initiatives reflects an excellent responsiveness to the community development needs of the Harris County AA. The bank originated three qualified investments totaling \$2,571,700 during this CRA evaluation period. Also, the bank made 18 contributions totaling \$41,750. Although LNB is fairly new to this market, the bank's investment level and responsiveness to community credit needs is considered excellent compared to the percentage of overall deposits gathered from this area. Overall opportunities for CD investments are considered high in this assessment area. Nonprofits and local government are well organized in community development initiatives and offer a variety of ways local financial institutions can leverage their investment funds. Examples of community development investments and qualified grants made during this CRA evaluation period include:

- **Tejano Center for Community Concern** - The bank took a leadership position by purchasing \$1.5 million in bonds issued by the Danbury Education Authority on behalf of the Tejano Center for Community Concern. The Tejano Center is a nonprofit corporation that provides education, social services housing, and economic development initiatives for low-income children and families in the Houston area. LNB purchased half of the total \$3,000,000 issue, which was used to provide funds for renovations and additional equipment and to refinance the existing loan that was used to purchase the charter school. This charter school is located in a moderate-income area and is surrounded by low- and moderate-income census tracts. It is attended predominantly by low- and moderate-income children. This investment has a high impact on community development in the Houston area because of the Tejano Center's programs that provide opportunities for advancement to low-income children and families. Examples of programs include Foster Care, Affordable Housing Capacity Building Program, Child Care Council, Gang Intervention, a health care clinic, a Community Development Housing Development Organization (CDHDO), and the previously mentioned charter school. The demand for charter school investments has been historically very low in the market place. However, LNB provided leadership in funding this investment due to the critical need it meets along with the charter school being located in close proximity to its branch locations on the east-side of Houston.

- **Texas Corporation Tax Credit Fund** - The bank purchased a total of \$2 million of this low-income housing tax credit of which \$1 million was allocated to the Harris County AA. This is a low-income housing tax credit (LIHTC) fund that will facilitate the completion of five affordable housing properties in the state of Texas. The Houston project is called Plum Creek Apartments. This project consists of 150 units of new construction comprising \$6.1 million net equity or 30.2% of the fund's equity. Approximately 93 of the units are reserved for low-income residents and are offered at rents substantially below market rates. This investment is not considered innovative but is considered complex based on the various funding sources for these projects.
- **Housing Opportunities of Houston** - LNB made a grant to this organization totaling \$8 thousand. This is the state's largest HUD-certified, nonprofit housing counseling agency. They administer a full-service Homebuyer Assistance Program for low- and moderate-income people. Also, the program provides financial assistance to help buyers, based upon need, with down payments and closing costs.
- **Association for the Advancement of Mexican-Americans** - LNB made grants to this organization totaling \$7,500. This organization provides all types of social services to low-income Hispanics in the Houston area. One example of the services provided includes providing free school supplies to needy children in Houston.

Conclusions for Area Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's performance under the investment test in the Brownsville MSA AA, Corpus Christi MSA AA, and the Willacy County Non-Metropolitan area is not inconsistent with the bank's overall high satisfactory performance under the investment test. The bank does not have any investments allocated to the Brownsville MSA AA and Willacy Non-Metropolitan MSA AA. However, this was not weighted in a negative way due to the bank's recent entrance in these markets. Refer to Table 12 in appendix C for the facts and data that support these conclusions.

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

Reviews

The bank's performance under the Service Test is rated "**Outstanding.**" Based on full scope reviews, the bank's performance in the Laredo MSA AA, San Antonio MSA AA, and Houston MSA AA is excellent. Performance in the Laredo MSA is weighted the heaviest since a much larger percentage of its deposit base is derived from this assessment area than the other two. The San Antonio MSA AA and Houston MSA AA were weighted equally. The rating is primarily based on the bank opening 9 of 15 branches in low- or moderate-income geographies since the previous CRA evaluation. In addition, 13 or 62 percent, of the bank's branches are in areas identified as distressed by the United States Treasury Department Bank Excellence Award Program criteria. Retail services include checking account products that are affordable for low- and moderate-income people including products with no monthly service fee regardless of balances maintained and low account opening balance requirements. LNB also has been a leader and displayed exceptional commitment to community development services in the Laredo MSA.

Retail Banking Services

Refer to Table 13 in appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

The primary distribution system for banking products is physical branches. Branch distribution in moderate-income geographies is especially strong. In the Laredo MSA AA, 40 percent of the branches are in moderate-income geographies and the distribution compares favorably with the percentage of the AA population residing in moderate-income geographies at 43 percent. This distribution was strengthened with the opening of a new branch in a moderate-income geography during 1998. LNB has a stronger distribution in moderate-income geographies than other area banks, which when combined have a penetration of 23 percent in moderate-income geographies. The AA does not contain any low-income census tracts. Branch distribution in the San Antonio MSA AA is excellent with 60 percent of the 5 AA branches located in low- or moderate-income census tracts. The Houston MSA AA also has a strong distribution with 5 AA branches located in moderate-income census tracts with all five being opened since the previous CRA evaluation.

Banking hours provide excellent accessibility throughout the AA reviewed under full-scope procedures. A pilot program was introduced in December 2000 at two Laredo MSA branches. The program is called 7-7-7 and provides seven-day banking and lobby hours from seven in the morning through seven in the evening. One branch is in a moderate-income geography and the other is in an upper-income geography. Hours at the other branches provide lobby and motor bank hours Monday through Saturday with extended evening hours on Fridays at two locations. Two exceptions exist for branches in the San Antonio MSA AA that offer lobby hours Monday through Friday with only motor banking available on Saturday.

Laredo National Bank offers the same products throughout its AAs. The bank offers four types of consumer accounts that are responsive to basic banking needs of low- and moderate-income people. Free Checking was recently introduced. The account offers overdraft privileges, requires no minimum monthly balance and only requires \$100 to open. Another product that meets needs of mainly lower-income individuals is the Graduate Account. This account offers no monthly service charges for four years after graduation from high school. The third type of account is the 50 Grand Account, which offers no service charge if a minimum balance of \$500 is maintained for people 50 and over. The fourth account is the Basic-Low Cost Account, which only requires \$100 to open, has no minimum balance requirement, and a low monthly fee of \$4.

The branch system is augmented by ATMs, telephone banking, banking by mail and Internet banking services. All services are available in English and Spanish.

In the Laredo MSA AA, 16 ATMs supplement the branch system. Nine of the ATMs are located separate from bank premises. The geographic distribution reflects that 44 percent of the AA ATMs are located in moderate-income geographies. Laredo National Bank operates four ATMs in moderate-income geographies in the Houston MSA AA and four ATMs in the San Antonio MSA AA, with one in a moderate-income geography.

Laredo National Bank offers check cashing for non-customers with a fee of \$1 per \$100 and includes cashing of government checks. The fee structure is more affordable than most other area check cashing operations offer. Another nontraditional service that attracts low- and moderate-income individuals is Western Union money transfers that are offered at a number of branches. Many users of the Western

Union services are low- and moderate-income and Laredo National Bank targets the Western Union customers to cross-sell bank products.

Community Development Services

Laredo National Bank has demonstrated excellent community development service performance in the Laredo MSA AA. Activities demonstrate the bank's commitment to its communities primarily through providing technical assistance and also through credit counseling and banking education. The bank's primary activities are provided through Laredo-Webb NHS, Inc. and FHLB grant assistance. LNB demonstrates leadership through these activities.

The bank does not have a large market presence in Harris and Bexar County and increased operations in these markets during the evaluation period. Community development services are not as extensive in these areas, but show good responsiveness to market needs.

Below are examples of the bank's involvement in community development services in the full-scope AA:

- **Laredo-Webb NHS, Inc.** - Laredo-Webb NHS, Inc. (NHS) is the primary affordable housing organization in Laredo and is a certified Community Development Financial Institution. Activities are extensive and its primary missions include fighting community deterioration through reversing disinvestment and deterioration to the community's housing stock and helping first time homebuyers through financial assistance. The NHS provided homebuyer counseling for approximately 475 families last year with 361 of the families purchasing homes in Laredo. The organization helped rehabilitate 42 homes and construct 6 homes over the year. In addition, 20 apartment units were purchased and are now managed by NHS.

Laredo National Bank has been actively involved in this organization since its creation in 1991 and a bank employee serves as President and serves on the organization's loan approval committee. Laredo National Bank has helped the organization secure grants and administer grant funds, make loan decisions, provide homebuyer counseling, and determine loan underwriting guidelines. The primary grant activities for this evaluation period are described under Federal Home Loan Bank (FHLB) Grant activities.

- **Federal Home Loan Bank Grants/Texas Department of Housing and Community Affairs Grant** - Laredo National Bank has helped nonprofit organizations involved in affordable housing obtain grants through the Federal Home Loan Bank (FHLB). Since the prior examination, four grants in the Laredo MSA totaling \$426,492 have been secured for down payment assistance for newly constructed homes.

Two of the grants have been tied with the Laredo-Webb NHS, Inc. and are referred to as the Six Home Program and the Seven Home Program. Laredo National Bank provided technical assistance in preparing the grant proposals and administers the grant. Together the programs provided 13 houses for low-income borrowers that also had disabilities. The homebuyers received between \$13,000 and \$17,000 each in downpayment and closing cost assistance through the grants.

The other two grants are part of the La Gloria Development, which is a new housing development in a "Colonia". The Colonias are areas of extremely poor living conditions; for example residents do not have basic services such as water and sewer. One grant was through the FHLB and the other

was through the Texas Department of Housing and Community Affairs. These grants will provide down payment assistance for 25 homes for very low-income families.

- **Terra-Genesis Local Housing Board** - Terra-Genesis is a statewide non-profit housing agency that provides affordable rental housing for low-income elderly people. Laredo National Bank provided technical assistance through helping with preparation of rental applications and assistance on financial issues. A bank employee served on the Board of Directors.
- **Laredo Habitat for Humanity** - Laredo National Bank provides technical assistance to this affordable housing organization. A bank officer serves on its Board of Directors.
- **Laredo Development Foundation** - The foundation attracts businesses to Laredo and provides small business counseling and financing. A bank officer is involved with the foundation and provided technical assistance during this review period including help with creating a Community Development Corporation that is managed by the foundation. The Community Development Corporation was created to originate SBA loans and help small businesses.
- **Laredo/Webb County Food Bank** - This organization meets basic needs of extremely low-income people. A bank employee serves on the Board of Directors.
- **Avance, Inc. in Laredo** - This organization serves people through the housing authority. The organization serves low-income people and provides parenting skills, early childhood education, and teaches basic finance and banking skills. Technical assistance is provided through participation on the Board.
- **Salvation Army of Laredo** - This organization serves very low-income people through providing meals, overnight shelter and clothing. The bank provides technical assistance through serving as a director and helping with financial and business decisions.
- **Mortgage Seminars in Bexar County** - The bank sponsored two seminars targeted at low or moderate-income people that explained the basics of mortgages, how to buy a home, how to remodel a home, down payment assistance and credit counseling. An estimated 35 persons attended and two mortgages were originated directly as a result of the seminars.
- **Employee Luncheon in Bexar County** - An employee luncheon was sponsored that targeted people earning approximately minimum wages. Banking education and a description of available bank products was provided. As a result, 30 accounts were opened and 2 consumer loans were made.
- **San Antonio Business Development Fund** - The bank provided office space for this non-profit organization at below market rents. The organization serves small businesses and promotes economic development.
- **Mortgage and Loan Seminars in Harris County** - Seminars were held that explained mortgages and home purchase assistance programs. The mortgage seminar was targeted toward low- or moderate-income people and was in Spanish. A seminar was held at the Long Point branch addressing how to get a SBA loan that targeted small businesses in the area near the bank, a moderate-income geography. The seminar provided education and assistance in completing

applications. Approximately 25 people attended and 3 loans have been originated that resulted from the SBA seminar.

- **American Legion Auxiliary in Harris County** - A bank employee provides technical assistance through serving as Treasurer, keeping financial records and providing financial advice. The organization primarily serves low-income families and individuals by helping with basic needs such as clothing, medical services, and food pantries.
- **Acorn in Harris County** - Technical assistance was provided to the organization through attending two housing fairs and accepting loan applications. The fair was geared toward low- and moderate-income families and individuals.

Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's performance under the service test in the Brownsville MSA AA, McAllen MSA AA, Corpus Christi MSA AA, and Willacy County Non-Metropolitan area AA is not inconsistent with the bank's overall "Outstanding" service performance. The level of retail services in limited-scope areas is good and the community development involvement is excellent considering Laredo National Bank does not have a large presence in these markets and is just establishing operations. Refer to Table 13 section of appendix D for the facts and data that support these conclusions.

The level of retail services is good. Retail products do not vary between AA. Lobby hours and motor bank hours are offered Monday through Saturday at the McAllen MSA branches. In the Corpus Christi MSA AA, lobby hours are Monday through Friday with motor banking available on Saturdays. In the Brownsville MSA AA, a loan production office was opened in April 2000 and was converted to a full service branch as of January 2001. The Willacy County non-metropolitan area did not contain a full service branch as of the examination date but was served through McAllen and Brownsville operations.

The number of community development services is lower than the full-scope areas, but is excellent given the scope of the bank's operations in each area. In the Corpus Christi MSA AA, the bank has been involved in several activities including homeownership counseling for low-income individuals, providing technical assistance to Habitat for Humanity in writing a grant proposal, and contributing technical assistance to the Red Cross. The bank has provided technical assistance for two FHLB grants in the limited-scope areas. One is for the Brownsville MSA AA and the other is for the Willacy County Non-Metropolitan AA. Each project will result in 20 new homes for low- and moderate-income families and the grant money will be used for down payment assistance. In the McAllen MSA AA, the bank was involved with an affordable housing program, Amigos del Valle, Inc. Technical assistance was provided through serving on the loan committee to qualify applicants for down payment assistance under the USDA Rural Development program and serving as Chairman for Affordable Housing.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD Loans): (01/01/98 to 09/30/00) Investment and Service Tests and CD Loans: (03/20/98 to 02/05/01)	
Financial Institution	Products Reviewed	
The Laredo National Bank	Small loans to businesses HMDA CD loans	
Affiliate(s)	Affiliate Relationship	Products Reviewed
None.		
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Laredo MSA San Antonio MSA Houston MSA Brownsville MSA McAllen MSA Corpus Christi MSA Willacy County Non-Metropolitan	Full Scope Full Scope Full Scope Limited Scope Limited Scope Limited Scope Limited Scope	Only includes Bexar County Only includes Harris County Only includes Nueces County

Appendix B: Market Profiles for Full-Scope Areas

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Market Profiles for Areas Receiving Full-Scope Reviews

Laredo MSA.....	B-2
San Antonio MSA	B-4
Houston MSA	B-6

LAREDO MSA

Demographic Information for Full-Scope Area: Laredo MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	24	0.00	45.83	33.33	20.83	0.00
Population by Geography	133,239	0.00	43.02	27.95	29.03	0.00
Owner-Occupied Housing by Geography	20,902	0.00	43.02	27.95	29.03	0.00
Businesses by Geography	6,063	0.00	31.85	28.98	39.17	0.00
Farms by Geography	67	0.00	28.36	26.87	44.78	0.00
Family Distribution by Income Level	29,735	24.63	16.66	16.54	42.17	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	12,279	0.00	52.78	30.45	16.77	0.00
Median Family Income	= \$19,527	Median Housing Value		= \$99,000		
HUD Adjusted Median Family Income for Households Below the Poverty Level	= \$31,300 = 34.54%	Unemployment Rate		= 5.6%		

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 1990 U.S. Census, and 2000 HUD updated MFI.

LNB includes the whole Laredo MSA as one of its assessment areas. The MSA is comprised of Webb County. Webb County consists of twenty-four census tracts. Most of the population of Webb County is concentrated in the City of Laredo, Texas which is located along the Texas-Mexico border approximately 150 miles west of Corpus Christi, Texas, 150 miles south of San Antonio, Texas, and across the Rio Grande River from Nuevo Laredo, Mexico. Other communities that make up the bank’s assessment area include Bruni-Mirando City and El Cenizo.

The total population of this assessment area was 133,239 as of the 1990 census. The estimated population for the year 2000 is expected to increase by 45% to 193,180. Approximately 94% of the population is Hispanic. This population is comprised of 29,735 families, of which 40.33%, 28.36%, 31.31% are located in moderate, middle, and upper-income census geographies, respectively. There are no low-income geographies located in this assessment area. U.S. Highway 59 runs from east to west, effectively dividing the Laredo assessment area in half. The moderate-income tracts are concentrated in the west-central portion of the City of Laredo, south of Highway 59, and a large portion of northern Webb County. Upper Income tracts are concentrated in the northern portion of the City, north of Highway 59.

Of the assessment area families, 24.63%, 16.66%, 16.54%, and 42.17% report earning low, moderate, middle, and upper-incomes respectively. Approximately 35% of the population lives below the poverty level. This compares unfavorably to the state poverty population of 16.48%. A low-income family in Laredo has an income of less than \$15,560. It is noted that although 25% of the families in the Laredo MSA AA are defined as low-income, no census tracts are defined as low-income. A substantial 54% of low-income families reside in moderate and 30% in middle-income census tracts. This distribution could distort the analysis of the geographic distribution of LNB’s loan originations by census tracts.

The Median Family Income (MFI) figure for Webb County was \$19,527 in 1990. This figure is used to determine the income level of each geography. Based on estimates by the Department of Housing and Urban Development (HUD), the adjusted MFI figure of \$31,300 was used to determine the borrowers' income levels for the Laredo MSA in 2000. This compares to HUD's 2000 adjusted MFI for all MSAs in the State of Texas of \$47,629 and provides some insight into the comparatively poor population in Laredo.

The economic conditions in Laredo have improved over the past two years and are considered to be healthy. Unemployment levels, however, remain above the Texas and national averages. As of December 2000, Webb County reported an unemployment rate of 5.6%, still notably higher than the statewide average of 3.4%. The retail, service, and government sectors account for the majority of the employers in Laredo. With the impact of NAFTA, transportation and communication businesses also play a major role. The economy of Laredo remains highly dependent on events that occur in Mexico. All of the above industries are impacted whenever the Mexican economy enters a declining period.

While the MFI is comparatively low, the median housing value in the Laredo MSA is high at approximately \$99,000. There exists a definite mismatch between the financial ability of the residents of the Laredo MSA to purchase a home and the cost of a home. The National Association of Home Builders (NAHB) compiles an affordability index each quarter. The index is an effort to quantify the affordability of homes by comparing median family incomes to the median sales prices of homes. For the first quarter of 2000, Laredo continued to be one of the twenty-five least affordable home markets nationwide. With a rating score of 179 being the least desirable, Laredo ranked 162. High housing prices are attributed to high land costs resulting from Laredo's unique geography, control of land supply by a limited number of landowners, and the increase in the demand of land for development due to economic expansion as a result of NAFTA. The high cost of housing, coupled with the low MFI negatively impacts the bank's ability to make affordable home mortgage products available to low- and moderate-income families. As a result, there are significant unmet affordable housing needs in Laredo. Although the City of Laredo provides limited opportunities for bank participation, banks have partnered with Neighborhood Housing Services, Community Development Programs, and other non-profit housing developers to provide affordable housing.

Community contacts conducted by our office included interviews with community development agencies, a neighborhood housing service agency, a housing authority, and realtor companies. Although the contacts stated that while the local economy is improving, over a third of the Laredo population reports low- and moderate-incomes. Affordable housing continues to be a critical need of the assessment area. Webb County and the City of Laredo have initiatives in place in an attempt to provide affordable housing and to rehabilitate declining areas of the assessment area. However, these initiatives remain limited due to the scarce availability of funds and real estate. The majority of the contacts indicated that the local financial institutions participate in these programs to provide affordable housing. LNB was recognized by two of our contacts as a leader in participating in available programs.

SAN ANTONIO MSA

Demographic Information for Full-Scope Area: San Antonio MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	226	9.73	31.42	30.09	27.43	1.33
Population by Geography	1,185,394	8.20	30.51	32.38	28.90	0.00
Owner-Occupied Housing by Geography	236,404	5.74	27.69	30.28	36.29	0.00
Businesses by Geography	43,809	5.75	23.64	35.31	35.26	0.03
Farms by Geography	886	2.26	18.17	33.75	45.82	0.00
Family Distribution by Income Level	299,507	22.94	17.05	20.00	40.01	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	119,772	13.95	42.81	30.29	12.95	0.00
Median Family Income	= \$29,898	Median Housing Value		= \$56,353		
HUD Adjusted Median Family Income for 2000	= \$43,100	Unemployment Rate		= 2.7%		
Households Below the Poverty Level	= 17.21%					

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 1990 U.S. Census, and 2000 HUD updated MFI.

The only county included in the bank’s assessment area for the San Antonio MSA is Bexar County. LNB operates five full service branches and four proprietary ATMs in the city of San Antonio. Two branches are located in low-income census tracts, one branch is located in a moderate-income census tract, and two branches are located in middle-income census tracts. The bank is in the process of opening a sixth branch to be located in a low-income census tract. The Bexar County assessment area is very large and includes substantial geographies not reasonably served by LNB’s branches, all located in the City of San Antonio.

Deposits originating from the San Antonio MSA represent only 4.54% of LNB’s total deposits. However, with 14.73% of total CRA reportable loans derived from this assessment area, this is the second largest market for the institution. As of September 30, 2000, the San Antonio offices reflected a loan-to-deposit ratio of 192% after netting out foreign deposits. In terms of market share (as of June 30, 1999), LNB holds less than 1% of bank deposits in the assessment area. A locally headquartered mid-size bank (Frost National Bank) provides the major competition in this market. Credit Unions are also major players in the San Antonio MSA. They serve large populations of military and federal employees and hold almost a third of the deposits in the City of San Antonio. Other competition includes affiliates of large national banking companies, mid-size community banks, and numerous community banks.

The San Antonio MSA AA consists of the San Antonio metropolitan area and several surrounding incorporated communities such as Windcrest, Converse, Universal City, Kirby, Schertz, Elmendorf, Lytle, Somerset, Balcones Heights, Leon Valley, and Helotes. In addition, the assessment area contains Lackland, Randolph, Brooks, and Kelly Airforce Bases (AFB). However, Kelly AFB is scheduled to be phased out during 2001 and 2002. Of the 226 census tracts that make up the defined assessment area, three of the census tracts, representing 1% of the total number of tracts, are not classified by income level and are excluded. The total population of the Bexar County assessment area from the 1990 Census is 1,185,394. Census Bureau projections indicate the population of Bexar County is expected to increase

15% to 1,372,867 by the end of the twentieth century. This population is comprised of 299,507 families, of which 7.17%, 28.26%, 32.73%, and 31.85% are located in low, moderate, middle, and upper-income geographies, respectively. Of those families, 22.94%, 17.05%, 20.00%, and 40.01% report low, moderate, middle, and upper incomes, respectively.

The San Antonio economy is considered to be stable and improving. The unemployment rate as of December 2000 of 2.7% is below the state average of 3.4%. The MFI figure for the Bexar County assessment area was \$29,898 in 1990. This figure is used to determine the income level of each geography. Based on estimates by HUD, the adjusted MFI figure of \$43,100 was used to determine the borrowers' income levels for the San Antonio MSA in 2000.

Government, tourism, retail trade, medical and research interests, and apparel manufacturing support the region's economy. In addition, telemarketing has become a growing industry in the area. Companies with a recent telemarketing presence include the Home Shopping Network and Citibank. Principal public sector employers include Randolph, Lackland, Brooks, and Kelly Air Force Base, the City of San Antonio, and San Antonio Independent School District. Although Kelly Air Force Base has been slated for closure in 2001, the military presence remains strong. Randolph AFS is the back up to the Pentagon and performs the payroll service for the US Air Force. Brooks AFS performs extensive research and medical testing, and Brook Army Medical Hospital is one of the leading burn victim units in the world. Fort Sam Houston provides medical training for armed forces staff for both domestic and to foreign nationals. Private sector employers include HEB Groceries and Methodist Healthcare System. San Antonio is currently experiencing strong retail growth northward along the Interstate 35 corridor toward the city of New Braunfels.

A review of community contacts conducted within the assessment area and information produced by the City of San Antonio indicates a number of opportunities to participate in community development lending, investments, and service activities within the San Antonio MSA. There are numerous public agencies and community and neighborhood-based organizations that focus on economic development. The contacts identified the primary credit needs were for some very specific areas such as inner-city community facilities, affordable housing and multifamily housing projects, and small business in general. In addition, technical assistance in obtaining small business capital was considered as a primary need in the community. A not-for-profit organization source indicated that although general banking needs were being satisfactorily met by products and service availability, these needs were not being met by accessibility. A need exists for more banking locations or more ways to make the bank products and services more accessible to the elderly, disabled, and low- to moderate-income persons.

HOUSTON MSA

Demographic Information for Full-Scope Area: Houston MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	582	12.54	30.76	29.04	25.26	2.41
Population by Geography	2,818,199	9.07	28.71	32.36	29.86	0.00
Owner-Occupied Housing by Geography	533,891	5.76	22.64	32.26	39.34	0.00
Businesses by Geography	135,793	6.81	27.11	30.34	35.43	0.31
Farms by Geography	1,928	3.16	19.24	36.31	41.18	0.10
Family Distribution by Income Level	708,831	23.16	16.84	20.14	39.87	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	283,494	15.91	40.97	30.21	12.90	0.00
Median Family Income	= \$36,886	Median Housing Value		= \$63,376		
HUD Adjusted Median Family Income for 2000	= \$56,700	Unemployment Rate		= 3.4%		
Households Below the Poverty Level	= 13.40%					

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 1990 U.S. Census, and 2000 HUD updated MFI.

LNB has defined Harris County as its assessment area for offices located in the Houston MSA. LNB operates six full-service branches and four proprietary ATMs within Harris County. One branch is located in the upscale Galleria shopping center and caters primarily to LNB's international customers. The remaining five branches are all located in moderate-income census tracts primarily concentrated in the downtown and southeastern sectors of the City of Houston. The Harris County assessment area is very large and includes substantial geographies not reasonably served by LNB's branches.

With 7.19% of total deposits and 11.71% of CRA reportable loans emanating from this assessment area, this is the third largest market for the institution. A significant percentage of these deposits are foreign as the bank's loan to deposit ratio for Harris County is 372% without foreign deposits. In terms of market share (as of June 30, 1999), LNB holds less than 1% of bank deposits in Harris County. Local banking competition is aggressive and includes affiliates of large national banking companies, mid-size community banks, numerous small community banks, credit unions and non-bank financial service providers.

The Harris County Assessment Area is composed of the Cities of Houston, Spring, Kingwood, Baytown, Pasadena, Mission Bend, and Katy, and includes 582 census tracts. Fourteen of the tracts, representing about 2% of the total number of tracts, are not classified by income category and are excluded. The total population of the Harris County assessment area from the 1990 Census is 2,818,199. Census Bureau projections indicate the population of Harris County is expected to increase 15% to 3,250,404 by the end of the twentieth century. This population is comprised of 708,831 families, of which 8.14%, 26.85%, 32.57%, and 32.43% are located in low, moderate, middle, and upper-income geographies, respectively. Of those same families, 23.16%, 16.84%, 20.14%, and 39.87% report low, moderate, middle, and upper incomes, respectively.

Houston, the largest city in the state, has historically relied on energy related industries. After the downturn in crude oil prices and the recession of the 1980s, the Houston marketplace was forced to

diversify, and now the economy is considered healthy and growing. The area's primary natural resources are oil, gas, salt, lime, sand, gravel, clay, stone, and timber. The area is also well served by an extensive transportation network that links to regional, national, and global markets and economies. The Port of Houston is one of the largest ports in the United States and one of the ten busiest ports in the world. Predominant industries include aerospace engineering, oil exploration and refining, and electronics. Houston continues to be a world leader in the energy sector as employment has shifted away from basic extraction to refining, petrochemicals, and engineering and management services. In addition, it has an internationally recognized medical center and is headquarters to NASA. Major employers include NASA, the Houston medical center, energy and chemical companies, Compaq Computer, and Brown and Root. Unemployment is in line with the state average of 3.4%. The Median Family Income figure for the Harris County assessment area was \$36,866 in 1990. This figure is used to determine the income level of geographies within the Harris County assessment area. Based on estimates by HUD, the adjusted MFI figure of \$56,700 was used to determine the borrowers' distribution income level for the assessment area in 2000.

A review of community contacts conducted within Houston and local government initiatives indicates a large number of opportunities to participate in community development lending, investments, and service activities. There is substantial opportunity for banks to participate in making home improvement, home purchase, and small business loans. The contacts identified the primary credit needs of Harris County as loans for affordable housing, affordable home improvement loans, revitalization of low-income areas and small business loans. Several contacts indicated that much of the small business credit needs might take the form of venture capital.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MSA/assessment area.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MSA/assessment area.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 6. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 7. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MSA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 8. Borrower Distribution of Home Improvement Loans** - See Table 7.

- Table 9. Borrower Distribution of Refinance Loans** - See Table 7.
- Table 10. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 11. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MSA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.
- Table 13. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MSA/AA. The table also presents data on branch openings and closings in each MSA/AA.
- Table 14. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MSA/assessment area.

Appendix V: Standardized Tables

General Information

A set of mandatory standardized tables has been developed to improve the consistency of the presentation of data used in the evaluation in the PE.

The following are important facts to remember:

- The tables are **mandatory** for all banks evaluated using the large bank CRA examination procedures.
- The tables will always be included in the appendix section of the PE.
- A **separate set of tables** is to be completed for each rating area. A rating area is an area for which an overall rating and lending, investment, and service test ratings are assigned. Such areas will either be a state or a multistate MSA. Within a rating area, data for each MSA and full-scope non-metropolitan AAs will be presented on a separate line. Non-metropolitan AAs not chosen for full-scope reviews should be aggregated and reported on one line, unless the geographic proximity or anomalies in performance context would preclude such a combination.
- With the exception of community development loans, the evaluation period for the lending test should include all full calendar years since the ending date of the evaluation period of the last CRA examination. Current year-to-date (YTD) quarter-end loan data may also be included, if at least two quarters of data are available. If the evaluation period of the last CRA examination included YTD quarter-end loan data, the evaluation period for the current CRA examination may include loan data for the remaining quarters in that year. For community development loans and the service and investment tests, the evaluation period should run from the ending date of the last CRA evaluation period to the start date of the CRA data analysis phase.
- Data for the entire evaluation period should be combined in one table, i.e., you do not need a table for 1996 data and another table for 1997 data. Market share information contained in the tables should be for one year only and should always be for the most recent year that aggregate data are available.
- Loan data should always include loans originated AND purchased by the bank or any affiliates of the bank which the bank has provided for consideration.
- Whenever a table has a column for a “% of Total,” the percentage should be of the total for the rating area, not the overall bank.
- Tables 2 through 6 and Tables 13 and 14, which contain information relating to distribution by income level of geography, do not include a column for geographies that have not been

assigned an income classification. These are commonly referred to as “NA” geographies. As such, the sum of the distribution in low-, moderate-, middle-, and upper-income geographies in an AA may not equal 100 percent.

- For non-HMDA reporters, examiners will complete as much of the information in the home mortgage lending tables as is feasible. The examiner should refer to the “Loan Sampling Guidelines for Small Bank CRA Examinations” for guidance on selecting a sample to evaluate the bank’s in/out ratio and borrower and geographic distribution and, if applicable, to test the accuracy of the bank’s own analysis. Examiners can find the guidelines on the OCCnet’s Community and Consumer Policy site. No market share information will be available.
- Table 14 is an **optional table** that should be included only if the bank has provided consumer loan information for consideration or if consumer lending constitutes a substantial majority of the bank’s business. If consumer loans are not considered, this table should be deleted.
- When feasible, affiliated entities should be combined when determining market share. A list of the groupings for the largest banking companies supervised by the OCC can be found on the Community and Consumer Policy Web site under CRA.

Content of Standardized Tables (Examiner Guidance Discussion)

The following is a listing and brief description of each table included in the set of standardized tables. Also included is other information to assist the examiner in interpreting the tables. For non-HMDA reporting banks evaluated using the large bank CRA examination procedures, market share information is not applicable.

Table 1. - Lending Volume - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MSA/AA.

The deposit data contained in this table is obtained from the FDIC web site www.fdic.gov and is available only as of June 30 of each year. The percentage distribution of bank deposits by MSA/AA within a rating area compared to the percentage distribution of bank loans facilitates identification of MSAs/AAs not well served by the bank.

Table 2. - Geographic Distribution of Home Purchase Loans - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.

Table 3. - Geographic Distribution of Home Improvement Loans - See Table 2.

Table 4. - Geographic Distribution of Home Mortgage Refinance Loans - See Table 2.

Table 5. - Geographic Distribution of Small Loans to Businesses - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because aggregate small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's AAs.

Table 6. - Geographic Distribution of Small Loans to Farms - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because aggregate small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's AAs.

Table 7. - Borrower Distribution of Home Purchase Loans - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MSA/AA. The table also presents market share information based on the most recent aggregate market data available.

Table 8. - Borrower Distribution of Home Improvement Loans - See Table 7.

Table 9. - Borrower Distribution of Home Mortgage Refinance Loans - See Table 7.

Table 10. - Borrower Distribution of Small Loans to Businesses - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.

It may not be feasible to perform a meaningful analysis of the distribution of loans by revenue size of business, if the percentage of loans originated and purchased by the bank for which revenue size of the business is unknown is high.

Table 11. - Borrower Distribution of Small Loans to Farms - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.

It may not be feasible to perform a meaningful analysis of the distribution of loans by revenue size of the farm, if the percentage of loans originated and purchased by the bank for which revenue size of the farm is unknown is high.

Table 12. - Qualified Investments - Presents the number and dollar amount of qualified investments made by the bank in each MSA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. It is recognized that some investments are not fully paid-in at inception. In those cases, bank reporting for financial statements and call reports govern the timing of recognizing the investments. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system. Unfunded commitments should be considered to gain an understanding of a bank's investment activity and capacity.

Table 13. - Distribution of Branch Delivery System and Branch Openings/Closings - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each

geography in each MSA/AA. The table also presents data on branch openings and closings in each MSA/AA.

Table 14. - Geographic and Borrower Distribution of Consumer Loans (OPTIONAL) - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MSA/AA.

Table 1. Lending Volume

LENDING VOLUME		State: TEXAS				Evaluation Period: JANUARY 1, 1998 TO SEPTEMBER 30, 2000						
MSA/Assessment Area:	% of Rated Area Loans (#) in MSA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MSA/AA**
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
Full-Review:												
Laredo MSA	55.29	1,006	72,840	1,442	97,686	56	3,778	8	4,188	2,512	178,492	81.15
San Antonio MSA	14.73	193	17,030	465	40,991	7	404	4	1,680	669	60,105	4.53
Houston MSA	11.71	187	18,330	341	36,298	2	220	2	363	532	55,211	7.17
Limited-Review:												
Brownsville MSA	0.00	56	6,538	42	2,501	1	30	0	0	99	9,069	2.18
McAllen MSA	5.79	197	13,534	124	10,081	8	532	1	750	330	24,897	7.26
Corpus Christi MSA	1.36	65	5,975	321	22,712	9	966	1	20	396	29,673	8.72
Willacy Non -Metropolitan	0.00	3	112	2	83	0	0	0	0	5	195	0.11

(*) Rated area refers to either the state or multistate MSA rating area.

(**) The evaluation period for Community Development Loans is March 20, 1998 to February 5, 2001.

(***) Deposit data as of June 30, 1999. Rated area refers to either the state or multistate MSA rating area.

Table 2. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE			State: TEXAS				Evaluation Period: JANUARY 1, 1998 TO SEPTEMBER 30, 2000									
MSA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ***					
	#	% of Total*	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	Overall	Low	Mod	Mid	Upp	
Full-Review:																
Laredo MSA	392	48.82	0.00	0.00	39.67	15.56	29.01	27.30	31.32	57.14	4.42	0.00	2.79	3.39	6.19	
San Antonio MSA	115	14.32	5.74	3.48	27.69	13.04	30.28	37.39	36.29	45.22	.15	.43	.20	.28	.08	
Houston MSA	117	14.57	5.76	6.84	22.64	40.17	32.26	28.21	39.34	24.79	.02	.08	.03	.01	.03	
Limited-Review:																
Brownsville MSA	36	4.48	.54	0.00	22.34	11.11	50.18	22.22	26.94	66.67	.27	0.0	0.23	0.12	0.43	
McAllen MSA	116	14.45	0.00	0.00	24.42	7.76	48.72	20.69	26.85	71.55	.60	0.00	0.26	0.37	0.90	
Corpus Christi MSA	24	2.99	5.17	0.00	22.17	4.17	36.84	50.00	35.82	45.83	.13	0.00	0.21	0.11	0.14	
Willacy Non-Metropolitan	3	.37	0.00	0.00	72.41	33.33	27.59	66.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	

(*) Home purchase loans originated and purchased in the MSA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

(**) Percentage of Owner-Occupied Units is the number of owner-occupied housing units in a particular geography divided by the number of owner-occupied housing units in the area based on 1990 Census information.

(***) Based on 1999 Aggregate HMDA Data only.

Table 3. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT			State: TEXAS				Evaluation Period: JANUARY 1, 1998 TO SEPTEMBER 30, 2000									
MSA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ***					
	#	% of Total*	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	Overall	Low	Mod	Mid	Upp	
Full-Review:																
Laredo MSA	339	68.90	0.00	0.00	39.67	33.92	29.01	30.97	31.32	35.10	31.51	0.00	34.71	26.32	33.56	
San Antonio MSA	40	8.13	5.74	5.00	27.69	32.50	30.28	27.50	36.29	35.00	0.32	0.50	0.35	0.34	0.32	
Houston MSA	43	8.74	5.76	16.28	22.64	46.51	32.26	16.28	39.34	20.93	0.21	0.27	0.50	0.21	0.10	
Limited-Review:																
Brownsville MSA	5	1.02	.54	0.00	22.34	20.00	50.18	40.00	26.94	40.00	0.41	0.00	0.00	0.48	0.59	
McAllen MSA	42	8.54	0.00	0.00	24.42	14.29	48.72	45.24	26.85	40.48	0.67	0.00	0.35	0.71	1.06	
Corpus Christi MSA	23	4.67	5.17	4.35	22.17	34.78	36.84	26.09	35.82	34.78	0.97	0.00	2.97	0.85	0.57	
Willacy Non-Metropolitan	0.00	0.00	72.41	0.00	27.59	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	

(*) Home improvement loans originated and purchased in the MSA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

(**) Percentage of Owner-Occupied Units is the number of owner-occupied housing units in a particular geography divided by the number of owner-occupied housing units in the area based on 1990 Census information.

(***) Based on 1999 Aggregate HMDA Data only.

Table 4. Geographic Distribution of Home Mortgage Refinance Loans

Geographic Distribution: HOME MORTGAGE REFINANCE		State: TEXAS					Evaluation Period: JANUARY 1, 1998 TO SEPTEMBER 30, 2000								
MSA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ***				
	#	% of Total*	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full-Review:															
Laredo MSA	269	69.33	0.00	0.00	39.67	11.15	29.01	23.42	31.32	65.43	9.18	0.00	7.91	8.12	10.09
San Antonio MSA	34	8.76	5.74	8.82	27.69	23.53	30.28	41.18	36.29	26.47	0.13	0.37	0.15	0.19	0.08
Houston MSA	22	5.67	5.76	9.09	22.64	40.91	32.26	31.82	39.34	18.18	.02	0.00	0.07	0.03	0.01
Limited-Review:															
Brownsville MSA	12	3.09	0.54	0.00	22.34	8.33	50.18	33.33	26.94	58.33	0.17	0.00	0.00	0.26	0.13
McAllen MSA	33	8.51	0.00	0.00	24.42	12.12	48.72	33.33	26.85	54.55	0.47	0.00	0.53	0.41	0.50
Corpus Christi MSA	18	4.64	5.17	0.00	22.17	16.67	36.84	55.56	35.82	27.78	0.46	0.00	1.03	0.85	0.07
Willacy Non-Metropolitan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

(*) Home mortgage refinance loans originated and purchased in the MSA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

(**) Percentage of Owner-Occupied Units is the number of owner-occupied housing units in a particular geography divided by the number of owner-occupied housing units in the area based on 1990 Census information.

(***) Based on 1999 Aggregate HMDA Data only.

Table 5. Geographic Distribution of Small Loans to Businesses

Geographic Distribution: SMALL LOANS TO BUSINESSES												State: TEXAS		Evaluation Period: JANUARY 1, 1998 TO SEPTEMBER 30, 2000				
MSA/Assessment Area:	Total Small Loans To Businesses		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ***							
	#	% of Total*	% of Businesses**	% BANK Loans	% of Businesses**	% BANK Loans	% of Businesses**	% BANK Loans	% of Businesses**	% BANK Loans	Overall	Low	Mod	Mid	Upp			
Full-Review:																		
Laredo MSA	1442	52.69	0.00	0.00	31.85	19.42	28.98	23.99	39.17	56.59	19.31	NA	18.10	18.62	20.40			
San Antonio MSA	465	16.99	5.75	8.82	23.64	27.53	35.31	35.70	35.26	27.96	1.03	3.02	1.45	1.16	0.59			
Houston MSA	341	12.46	6.81	7.92	27.11	40.76	30.34	22.58	35.43	28.74	0.29	0.36	0.50	0.19	0.23			
Limited-Review:																		
Brownsville MSA	42	1.53	.90	0.00	30.01	19.05	39.37	40.48	29.71	40.48	0.68	0.00	0.00	1.02	0.77			
McAllen MSA	124	4.53	0.00	0.00	21.11	25.81	38.18	23.39	40.72	50.81	0.80	NA	1.00	0.64	0.88			
Corpus Christi MSA	321	11.73	8.89	8.41	28.63	35.51	34.90	29.28	27.58	26.79	2.73	4.62	3.49	3.11	2.33			
Willacy Non-Metropolitan	2	.07	0.00	0.00	63.34	100	36.66	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			

(*) Small loans to businesses originated and purchased in the MSA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

(**) Source of Data-Dunn and Bradstreet.

(***) Based on 1999 Aggregate Small Business Data only.

Table 6. Geographic Distribution of Small Loans to Farms

Geographic Distribution: SMALL LOANS TO FARMS			State: TEXAS				Evaluation Period: JANUARY 1, 1998 TO SEPTEMBER 30,2000								
MSA/Assessment Area:	Total Small Loans To Farms		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ***				
	#	% of Total*	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full-Review:															
Laredo MSA	56	67.47	0.00	0.00	28.36	28.57	26.87	23.21	44.78	48.21	39.29	NA	41.67	38.89	38.50
San Antonio MSA	1	1.20	0.00	0.00	16.42	0.00	60.12	100.00	23.46	0.00	0.00	0.00	0.00	0.00	0.00
Houston MSA	2	2.41	3.16	0.00	19.24	0.00	36.31	50.00	41.18	50.00	0.54	0.00	2.63	0.00	0.00
Limited-Review:															
Brownsville MSA	36	4.48	24.63	0.00	16.37	10.34	16.98	3.45	42.02	86.21	0.27	0.00	0.00	0.00	0.32
McAllen MSA	116	14.45	24.60	4.46	16.48	5.36	16.59	17.86	42.33	72.32	0.60	0.63	0.46	0.66	0.84
Corpus Christi MSA	24	2.99	23.70	4.76	15.70	14.29	18.99	9.50	41.61	71.43	0.13	0.40	0.13	0.00	0.24
Willacy Non -Metropolitan	3	0.37	38.30	0.00	19.33	0.00	17.20	0.00	25.17	100.00	0	0.00	0.00	0.00	0.00

(*) Small loans to farms originated and purchased in the MSA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

(**) Source of Data-Dunn and Bradstreet.

(***) Based on 1999 Aggregate Small Farm Data only.

Table 7. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE		State: TEXAS					Evaluation Period: JANUARY 1, 1998 TO SEPTEMBER 30, 2000									
MSA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share (%) by Borrower Income****					
	#	% of Total*	% of Families**	% BANK Loans** *	% of Families**	% BANK Loans** *	% of Families**	% BANK Loans***	% of Families**	% BANK Loans** *	Overall	Low	Mod	Mid	Upp	
Full-Review:																
Laredo MSA	392	48.82	24.63	7.3	16.66	13.70	16.54	12.80	42.17	66.16	4.42	8.33	4.00	2.12	6.77	
San Antonio MSA	115	14.32	22.94	8.57	17.05	7.62	20.00	19.05	40.01	64.76	0.15	0.13	0.04	0.14	0.27	
Houston MSA	117	14.57	23.16	22.02	16.84	27.52	20.14	16.51	39.87	33.94	0.02	0.03	0.02	0.01	0.02	
Limited-Review:																
Brownsville MSA	36	4.48	24.63	0.00	16.37	10.34	16.98	3.45	42.02	86.21	0.27	0.00	0.00	0.00	0.32	
McAllen MSA	116	14.45	24.60	4.46	16.48	5.36	16.59	17.86	42.33	72.32	0.60	0.63	0.46	0.66	0.84	
Corpus Christi MSA	24	2.99	23.70	4.76	15.70	14.29	18.99	9.50	41.61	71.43	0.13	0.40	0.13	0.00	0.24	
Willacy Non -Metropolitan	3	0.37	38.30	0.00	19.33	0.00	17.20	0.00	25.17	100.00	0	0.00	0.00	0.00	0.00	

(*) Home purchase loans originated and purchased in the MSA/AA as a percentage of all home purchase loans originated and purchased in the rated area.
 (**) Percentage of Families is based on 1990 Census information.
 (***) As a percentage of loans with borrower income information available. No information was available for 12% of loans originated and purchased by the bank.
 (****) Based on 1999 Aggregate HMDA Data only.

Table 8. Borrower Distribution of Home Improvement Loans

Borrower Distribution: HOME IMPROVEMENT			State: TEXAS				Evaluation Period: JANUARY 1, 1998 TO SEPTEMBER 30, 1998									
MSA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share (%) by Borrower Income****					
	#	% of Total*	% of Families**	% BANK Loans** *	% of Families**	% BANK Loans** *	% of Families**	% BANK Loans***	% of Families**	% BANK Loans** *	Overall	Low	Mod	Mid	Upp	
Full-Review:																
Laredo MSA	339	68.90	24.63	11.95	16.66	23.27	16.54	23.27	42.17	41.51	31.51	31.80	29.41	32.50	34.30	
San Antonio MSA	40	8.13	22.94	21.62	17.05	24.32	20.00	10.81	40.01	43.24	0.32	0.23	0.70	0.14	0.25	
Houston MSA	43	8.74	23.16	24.39	16.84	48.84	20.14	4.88	39.87	19.51	0.21	0.40	0.70	0.07	0.07	
Limited-Review:																
Brownsville MSA	5	1.02	24.63	0.00	16.37	0.00	16.98	20.00	42.02	80.00	0.41	0.00	0.00	0.64	0.70	
McAllen MSA	42	8.54	24.60	19.50	16.48	21.95	16.59	21.95	42.33	36.60	0.67	0.56	0.26	0.92	0.97	
Corpus Christi MSA	23	4.67	23.70	8.70	15.70	13.04	18.99	34.78	41.61	43.48	0.97	0.00	1.02	2.39	0.83	
Willacy Non-Metropolitan	0	0.00	38.30	0.00	19.33	0.00	17.20	0.00	25.17	100.00	0.00	0.00	0.00	0.00	0.00	

(*) Home improvement loans originated and purchased in the MSA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

(**) Percentage of Families is based on 1990 Census information.

(***) As a percentage of loans with borrower income information available. No information was available for 5% of loans originated and purchased by the bank.

(****) Based on 1999 Aggregate HMDA Data only.

Table 9. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE		State: TEXAS					Evaluation Period: JANUARY 1, 1998 TO SEPTEMBER 30, 2000									
MSA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share (%) by Borrower Income****					
	#	% of Total*	% of Families**	% BANK Loans** *	% of Families**	% BANK Loans** *	% of Families**	% BANK Loans***	% of Families**	% BANK Loans** *	Overall	Low	Mod	Mid	Upp	
Full-Review:																
Laredo MSA	269	69.33	24.63	1.89	16.66	13.21	16.54	16.51	42.17	68.40	9.18	0.00	8.97	9.18	10.02	
San Antonio MSA	34	8.76	22.94	12.50	17.05	21.88	20.00	18.75	40.01	46.88	0.13	0.42	0.08	0.12	0.24	
Houston MSA	22	5.67	23.16	15.00	16.84	30.00	20.14	20.00	39.87	35.00	0.02	0.05	0.03	0.04	0.01	
Limited-Review:																
Brownsville MSA	12	3.09	24.63	0.00	16.37	0.00	16.98	0.00	42.02	100.00	0.17	0.00	0.00	0.00	0.33	
McAllen MSA	33	8.51	24.60	0.00	16.48	18.75	16.59	9.38	42.33	71.88	0.47	0.00	1.41	0.26	0.57	
Corpus Christi MSA	18	4.64	23.70	0.00	15.70	0.00	18.99	30.77	41.61	69.23	0.46	0.00	0.00	0.82	0.71	
Willacy Non-Metropolitan	0	0.00	38.30	0.00	19.33	0.00	17.20	0.00	25.17	0.00	0	0.00	0.00	0.00	0.00	

(*) Home mortgage refinance loans originated and purchased in the MSA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

(**) Percentage of Families is based on 1990 Census information.

(***) As a percentage of loans with borrower income information available. No information was available for 18% of loans originated and purchased by the bank.

(****) Based on 1999 Aggregate HMDA Data only.

Table 10. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES		State: TEXAS		Evaluation Period: JANUARY 1, 1998 TO SEPTEMBER 30, 2000					
	Total Small Loans to Businesses		Businesses with Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share****	
	#	% of Total*	% of Businesses**	% BANK Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less
Full-Review:									
Laredo MSA	1,442	52.69	87.58	60.64	86.20	8.04	5.76	19.31	15.81
San Antonio MSA	465	16.99	88.52	69.41	80.65	11.61	7.74	1.03	1.20
Houston MSA	341	12.46	85.28	76.36	72.43	19.35	8.21	0.29	0.28
Limited-Review:									
Brownsville MSA	42	1.53	87.97	97.50	85.71	9.52	4.76	0.68	1.17
McAllen MSA	124	4.53	87.54	82.61	80.65	12.90	6.45	.80	1.05
Corpus Christi MSA	321	11.73	89.83	87.64	83.18	10.59	6.23	2.73	3.55
Willacy Non-Metropolitan	2	.07	87.60	100.00	100.00	0.00	0.00	0.00	0.00

(*) Small loans to businesses originated and purchased in the MSA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

(**) Businesses with revenues of \$1 million or less as a percentage of all businesses.

(***) Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 26% of small loans to businesses originated and purchased by the bank.

(****) Based on 1999 Aggregate Small Business Data only.

Table 11. Borrower Distribution of Small Loans to Farms

Borrower Distribution: SMALL LOANS TO FARMS		State: TEXAS		Evaluation Period: JANUARY 1, 1998 TO SEPTEMBER 30, 2000					
	Total Small Loans to Farms		Farms with Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share****	
	#	% of Total*	% of Businesses**	% BANK Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less
Full-Review:									
Laredo MSA	56	67.47	92.54	97.14	80.36	14.29	5.36	39.29	34.88
San Antonio MSA	7	8.43	95.26	100.00	85.71	14.29	0.00	2.80	2.78
Houston MSA	2	2.41	93.57	50.00	50.00	50.00	0.00	.56	.62
Limited-Review:									
Brownsville MSA	1	1.20	97.07	100.00	100.00	0.00	0.00	0.00	0.00
McAllen MSA	8	9.64	88.78	80.00	87.50	12.50	0.00	0.77	1.27
Corpus Christi MSA	9	10.84	96.79	77.78	55.56	33.33	11.11	4.00	4.55
Willacy Non-Metropolitan	0	0.00	95.29	0.00	0.00	0.00	0.00	0.00	0.00

(*) Small loans to farms originated and purchased in the MSA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

(**) Farms with revenues of \$1 million or less as a percentage of all businesses.

(***) Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 33% of small loans to businesses originated and purchased by the bank.

(****) Based on 1999 Aggregate Small Farm Data only.

Table 12. Qualified Investments

QUALIFIED INVESTMENTS State: TEXAS Evaluation Period: MARCH 28, 1998 TO FEBRUARY 5, 2001									
MA/Assessment Areas:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	% of Total \$'s	#	\$ (000's)
Full-Review:									
Laredo MSA	3	451	28	1,924	31	2,375	38.47%	0	0
San Antonio MSA	0	0	12	1,067	12	1,067	17.29%	0	0
Houston MSA	0	0	21	2,613	21	2,613	42.33%	0	0
Limited-Review:									
Brownsville MSA	0	0	0	0	0	0	0%	0	0
McAllen MSA	0	0	13	83	13	83	1.35%	0	0
Corpus Christi MSA	0	0	5	35	5	35	.57%	0	0
Willacy Non-Metropolitan	0	0	0	0	0	0	0%	0	0

(*) Prior Period Investments means investments made in a previous evaluation period that are outstanding as of the examination date.

(**) Unfunded Commitments means legally binding investment commitments that are tracked and recorded by the bank's financial reporting system.

