



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 15, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of South Padre Island
Charter Number 18063
P. O. Box 3640
709 Padre Blvd.
South Padre Island, Texas 78597**

Supervisory Office:

**Office of the Comptroller of the Currency
San Antonio South Duty Station
5350 South Staples, Suite 405
Corpus Christi, Texas 78411**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **First National Bank of South Padre Island** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **December 15, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**satisfactory**”.

First National Bank of South Padre Island satisfactorily meets the credit needs of its community consistent with safe and sound operations. A substantial majority of the bank's loans were made within the assessment area. The distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable. The bank's loan-to-deposit ratio and geographic distribution of loans are also reasonable given the area's demographics. The bank has not received any CRA related complaints during this rating period.

The following table indicates the performance level of First National Bank of South Padre Island with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>FIRST NATIONAL BANK OF SOUTH PADRE ISLAND</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		✓	
Lending in Assessment Area	✓		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		✓	
Geographic Distribution of Loans		✓	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF THE INSTITUTION

First National Bank of South Padre Island (FNB) is an independently owned community bank with its main facility located in the resort city of South Padre Island, Cameron County, Texas. The bank also has a branch in the city of Port Isabel, also located in Cameron County. Both locations provide basic banking services. It is the only bank headquartered on South Padre Island. FNB operates two ATM's. One is located at the main office and is accessible 24 hours a day. The other is located in a retail center near the main facility and is accessible during the retailers' business hours. On September 30, 1997, FNB's assets totaled \$30 million. The bank's primary business focus is on commercial real estate, residential real estate, and commercial lending. A majority of the commercial loans are to small businesses which cater to the tourist industry.

FNB's asset structure consists of 53% investment securities and federal funds sold, and 41% loans. The loan portfolio mix is as follows:

- non-farm/non-residential real estate (33%)
- 1-4 family residential real estate (30%)
- commercial & industrial (22%)
- consumer (7%)
- real estate construction (5%)
- multi-family real estate (3%)

There are no legal, financial, or other factors impeding the bank's ability to meet the credit needs of its AA. The last CRA Performance Evaluation for FNB is dated January 12, 1995. The bank was rated satisfactory.

DESCRIPTION OF THE ASSESSMENT AREA (AA)

FNB has designated its AA as the two census tracts in which the cities of South Padre Island and Port Isabel, Texas are located. One of the census tracts is upper-income, and the other middle-income. The distribution of family income levels within the AA is: 19.76% low-income, 16.64% moderate income, 18.10% middle-income, and 45.50% upper-income. The census tracts are part of the Brownsville/Harlingen Metropolitan Statistical Area (MSA #1240).

The 1990 U.S. Census determined the weighted average annual family income for the AA to be \$21,546. The AA has a population of 10,860. Because South Padre Island is a resort community, housing is available to accommodate an additional 30,000 people.

The unemployment rate for the bank's AA is 3%, well below both the state average of 6% and the Cameron County average of 12%. Tourism is the area's primary industry, with fishing and shrimping secondary. Major employers include hotels, condominiums, restaurants, and other service organizations.

Competition is from two regional banks. Each operates two branches in FNB's assessment area (AA).

We met with leaders of two community organizations which provide services in the bank's AA. One organization provides affordable housing. Both also support local businesses. Both contacts

stated that more affordable housing was the primary need in the community, but that affordable land was unavailable. They felt that the banks in the community are doing a good job meeting the identified credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Ratio

FNB's average loan-to-deposit ratio for the twelve quarters since the prior performance evaluation is 44.6%. At September 30, 1997, the bank's ratio was 44.4%. This is in line with the 49.6% average loan to deposit ratio of the two local competitors. It is also well within the 29.1% to 70.1% range of the nine banks in the county.

Lending in The Assessment Area

A substantial majority of credit extended is within the AA. As of our examination date, 91.5% of the dollar volume and 89.4% of the number of the bank's outstanding loans are in the AA. Our consumer loan sample reflected 84.8% of the dollar volume and 86.0% of the number of recently originated consumer loans were within the AA. Our commercial loan sample reflected that 93% of recently originated commercial loans were to small businesses located within the AA. The 1995, 1996, and year-to-date 1997 Home Mortgage Disclosure Act-Loan Application Register (HMDA-LAR)¹ reflects 97.9% of the dollar volume and 93.5% of the number of residential approvals were for properties located within the AA.

Lending to Borrowers of Different Incomes and To Businesses of Different Sizes

The distribution of loans to individuals with different income levels within the AA is reasonable. Our review included an analysis of loans reported on the HMDA-LAR, and a sample of 50 consumer loans made during 1997. The following chart reflects the bank's loan penetration to various income groups:

¹We used HMDA-LAR information since prior examination for CRA purposes. Reports were tested for accuracy.

Lending to Borrowers of Different Income Levels										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Totals	
Area Demographic Characteristics	19.76%		16.64%		18.10%		45.50%		100.00%	
Count	501		422		459		1,154		2,536	
	#	%	#	%	#	%	#	%	#	%
Loan Type										
Residential	3	5%	9	15%	12	19%	38	61%	62	100%
Consumer	8	16%	12	24%	16	32%	14	28%	50	100%
TOTAL	11	10%	21	19%	28	25%	52	46%	112	100%

NOTE: 93% of the low income families are located in census tract(CT) number 123.01. FNB opened a branch in this tract in July 1995, and expanded their assessment area to include CT 123.01 at that time.

The level of lending to borrowers of different income levels is reasonably distributed given the area's demographic characteristics and the bank's structure. It is reasonable that fewer residential loans would be made to low-income families because of the exceptionally high cost of residential real estate in the bank's AA.

FNB's business focus is on small commercial businesses that cater to tourism. Our review of 30 commercial loans originated during 1997 reflects a reasonable distribution to businesses of different sizes as shown in the following chart:

Lending to Businesses of Different Sizes										
Revenue Ranges (000's)	<\$100		\$100 to \$500		\$500 to \$1,000		>\$1,000		Total	
	#	%	#	%	#	%	#	%	#	%
Loan Type										
Commercial	10	33%	14	47%	4	13%	2	7%	30	100%

Note: No analysis was completed on Agricultural Lending. There are no small farms or ranches in the bank's assessment area and this type of lending is an insignificant portion of the bank's loan volume.

Geographic Distribution of Loans

The geographic distribution of loans is reasonably dispersed throughout the AA. Credit is being extended in both census tracts of the bank's AA. Our analysis of the HMDA-LAR and a sample of 50 consumer loans indicates the following distribution:

GEOGRAPHIC DISTRIBUTION OF LOANS									
	Low Income Tracts		Moderate Income Tracts		Middle Income Tracts		Upper Income Tracts		Total
Area Demographic Characteristics	0%		0%		50%		50%		100%
Count	0		0		1		1		2
	#	%	#	%	#	%	#	%	<i>Income information not readily available for census tracts of loans funded outside AA</i>
Loan Type									
Residential	0	0%	0	0%	27	44%	31	50%	
Consumer	0	0%	0	0%	20	40%	23	46%	
TOTAL	0	0%	0	0%	47	42%	54	48%	

This distribution reflects reasonable dispersion, given the area's demographic characteristics. The bank geocodes their loans to determine the exact location within the AA. Our review of this information did not detect any areas that had been arbitrarily excluded.

Responses to Complaints

FNB has not received any negative comments from the public regarding their CRA performance during this rating period. Based on the loans sampled during our examination, no practices were detected that would discourage applicants from applying for the types of credit offered by the bank. Management solicits applications from all segments of the community, including low- and moderate-income households. Furthermore, our review determined that FNB is in substantial compliance with fair lending laws. No violations of the substantive provisions of anti-discrimination laws and regulations were identified.

This document does not purport to describe all information that may be pertinent to the bank's activities and service to its community. The reader is encouraged to contact the bank for any further information and/or to review the bank's Public File. The bank's address is listed on the

front page of this document. The telephone number is 956-761-7959.