



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 25, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**South Padre Bank, National Association
Charter Number 23670**

**2701 Padre Boulevard
South Padre Island, Texas 78597**

**Comptroller of the Currency
San Antonio South Field Office
10101 Reunion Place Boulevard, Suite 402
San Antonio, Texas 78216**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

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

- The loan-to-deposit ratio is strong considering the bank's age, financial condition, market focus, and lending opportunities available in the assessment area.
- A majority of loans, representing 63.5 percent and 80.9 percent by number and dollar volume, respectively are within the bank's assessment area.
- The distribution of loans to individuals of different income levels is reasonable, given the high real estate values and the demographics of the assessment area. The penetration of loans to small businesses with annual revenues equal to or less than \$1 million is good.
- South Padre Island does not have any low- and moderate-income areas. For that reason, an analysis of the geographical distribution of the bank's lending efforts would not be meaningful.
- There have been no consumer complaints regarding the bank's CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

South Padre Bank, N.A. (SPB) is a newly chartered community bank with one office located in the resort city of South Padre Island, Cameron County, Texas. SPB opened for business in March of 1999 and there have been no changes to the corporate structure since opening. This is the bank's first CRA Performance Evaluation. As of December 31, 2001 total assets were reported at \$18.9 million with net loans to total assets of 74.14 percent. SPB is independently owned and does not belong to a holding company nor does it have any other affiliate relationship. There are no branch offices but it operates one Automated Teller Machine (ATM) located on the bank's premises. SPB's primary business focus is centered in residential, and commercial/commercial real estate lending. There are no legal or other impediments that would limit the bank's ability to meet the credit needs of the Assessment Area (AA).

The following table depicts the SPB's loan portfolio composition as of December 31, 2001:

Loan Category	\$ (000)	%
Residential Real Estate	7,487	48.9
Commercial/Commercial RE	4,535	29.7
Construction and Land Dev.	2,456	16.1
Consumer	626	4.1
Agricultural and Farm Land	179	1.2
Other Loans	2	<1
Total	15,285	100

DESCRIPTION OF SOUTH PADRE ISLAND

The bank's AA is the city of South Padre Island, Texas. South Padre Island is a resort community located in Cameron County on the Gulf of Mexico approximately 30 miles from Brownsville, Texas. The AA consists of only one census tract that is part of the Brownsville/Harlingen Metropolitan Statistical Area (MSA) #1240. This census tract is defined as upper income and based on the 1990 census, reported a population of 1,872. The AA reasonably represents the bank's lending and service area. The designation meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The family income distribution of the AA is 6.32 percent low income, 8.48 percent moderate income, 11.19 percent middle income, and 74.01 percent upper income. The updated 2001 Housing and Urban Development (HUD) Median Family Income for the MSA is \$29,100. Census Tract 123.02 which consists entirely of the city of South Padre Island, has a median family income of \$55,869 or 191.99 percent of the MSA median family income.

Tourism is the area's primary industry with major employers consisting of hotels, condominiums, restaurants, and other service organizations. Competition consists of one other community bank and the branch offices of three regional banks. Management of SPB considers the other community bank in the AA to be its primary competition. This institution is locally owned, has total assets of \$42 million, and the most similarly situated.

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

As part of our examination we contacted two community members, the director of an economic development organization and a business group leader. Both contacts state that tourism is the mainstay of South Padre Island's economy and feel that the area is now recovering from the bridge closure. They also agreed that the high real estate values on the island restrict any residential lending activity for low- and moderate-income individuals. They stated that the primary credit need is in commercial loans for those small businesses catering to tourism. Both contacts indicate the local economy remains strong and spoke very favorably of SPB's efforts to meet the credit needs of the community.

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

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	554
Number of Households	885
<i>Geographies</i>	
Number of Census Tracts/BNA	1
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	0%
% Upper-Income Census Tracts/BNA	100%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	18,731
2001 HUD-Adjusted MFI	29,100
2000 HUD-Adjusted MFI	27,900
1999 HUD-Adjusted MFI	26,900
<i>Economic Indicators</i>	
Unemployment Rate	2.83%
Percent of owner occupied housing	11.36%
1990 Median Housing Value	\$119,800
% of Households Below Poverty Level	7.12%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio - Exceeds Standards for Satisfactory Performance

SPB's loan-to-deposit ratio is strong considering the bank is only three years old. The quarterly average loan-to-deposit ratio since the bank opened in March of 1999 is 68.8 percent and was 77.2 percent as of December 31, 2001. Over the last five quarters, the loan-to-deposit ratio has averaged 84.4 percent. SPB' loan-to-deposit ratio compares favorably with the other community bank in the AA that reports an average loan-to-deposit ratio of 50.9 percent for this same time period.

Lending in Assessment Area (AA) - Meets Standards for Satisfactory Performance

SPB's lending in the AA is reasonable. The bank generates an internal tracking report that was tested for accuracy and considered reliable. Based on this report, 63.5 percent and 80.9 percent of all loans in the portfolio are within the AA by number and dollar volume, respectively. Primary products are residential loans and commercial/commercial real estate loans. Our sample of 33 residential and 35 commercial/commercial real estate loans indicated that a majority of these loans are within the AA. The following table illustrates the distribution of these loans:

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	20	60.6%	2,679	67.3%	13	39.4%	1,303	32.7%
Commercial/ Commercial RE	28	80.0%	5,590	89.1%	7	20.0%	674	10.9%
Total Reviewed	48		8,269		20		1,977	

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

Our sample focused on the bank's primary product lines, residential and commercial/commercial real estate loans originating since the bank opened. The sample indicated that out of 20 residential loans in the AA, there were no loans to low-income borrowers and only one residential loan to a moderate-income borrower. Considering the modest number of low- and moderate- income households and the high land values in the AA, this is understandable. We were told by one community contact that non-waterfront residential lots typically sell for \$50-\$60 thousand and waterfront lots from \$350-\$450 thousand. Given the high cost of land, it is extremely difficult for low- and moderate-income borrowers to qualify for residential loans in the AA. The dispersion of income levels in comparison to our residential sample results is shown in the table below:

Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	6.3%		8.5%		11.2%		74.0%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Residential	0%	0%	5%	3%	20%	21%	75%	76%

Conversely, our sample commercial/commercial real estate loans in the AA indicated a good distribution of loans to small businesses. Out of 28 loans in our sample, 25 or 89.3 percent by number and 96.9 percent by dollar volume of loans were to businesses with annual revenues equal to or less than \$1 million.

BORROWER DISTRIBUTION OF LOANS TO SMALL BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94.6%	5.4%
% of Bank Loans in AA #	89.3%	10.7%
% of Bank Loans in AA \$	96.9%	3.1%

Geographic Distribution of Loans - Not Rated.

This criterion was not rated. The bank's AA is comprised of only one Census Tract, which is defined as upper income. Any geographic distribution analysis would be meaningless.

Responses to Complaints - Not rated.

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

Fair Lending Review

An analysis of 1999, 2000, and 2001 public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.