



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**May 21, 2012**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First National Bank of South Padre Island  
Charter Number 18063

709 Padre Boulevard  
South Padre Island, TX 78597

Office of the Comptroller of the Currency

San Antonio South Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX. 75216-4133

**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.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

Factors supporting the institution's rating include.

- The bank meets the standard for satisfactory performance given its size, financial condition, and assessment area credit needs.
- The average loan-to-deposit (LTD) ratio of 49 percent over the prior 20 quarters is reasonable.
- A substantial majority of the primary loan products, originated during the review period, are to borrowers within the assessment area.
- The distribution of home loans reflects reasonable penetration among borrowers of different income levels, including loans to borrowers of low- and moderate-incomes. The distribution of commercial loans reflects reasonable penetration among small businesses.
- There were no Community Reinvestment Act (CRA) complaints filed during this rating period.
- There is no evidence of illegal discrimination.

**SCOPE OF EXAMINATION**

This document is an evaluation of the Community Reinvestment Act (CRA) performance of the First National Bank of South Padre Island (FNB) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency. The rating covers the period between August 13, 2007, and May 21, 2012. The agency rates CRA performance of an institution consistent with the provisions set forth in 12 C.F.R. § 25 Appendix A.

FNB's primary loan products are home loans and commercial loans. FNB is required to report data in accordance with the requirements of the Home Mortgage Disclosure Act (HMDA). HMDA data was tested and found to be reliable. The HMDA data for 2009 to 2011 is used to evaluate residential real estate performance in this evaluation. To evaluate commercial loans, we selected a sample of 20 loans originated or renewed between January 1, 2010, and December 31, 2011.

In evaluating the bank's loan-to-deposit ratio, we used a comparison to the one other bank headquartered in the AA, using average LTDs over the prior 20 quarters. This bank was selected for analysis based on its proximity and similar size to FNB.

## DESCRIPTION OF INSTITUTION

FNB is wholly-owned by Laguna Madre Bancshares Corporation of South Padre Island, Texas, which is in turn 100 percent owned by Laguna Madre Delaware Bancshares. FNB is headquartered in South Padre Island, Texas, and has one branch located in Port Isabel, Texas. Both locations are in Cameron County and provide basic banking services, including automated teller machines (ATMs).

Based on the bank's financial condition, local economy, product offerings, and prior performance, FNB has the ability to meet the various credit needs of its community. No legal impediments or other factors hinder the bank's ability to meet the credit needs of the assessment area (AA). The bank was rated "Satisfactory" at the previous CRA examination on August 13, 2007. FNB has total assets of \$59 million with total loans of \$28 million, or 47 percent of total assets, as of March 31, 2012. A summary of the bank's lending activity is reflected in the following table.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
<b>Residential Real Estate Loans</b>	<b>16,426</b>	<b>58</b>
Commercial Real Estate Loans	5,715	20
Commercial Construction Loans	3,363	12
Commercial Loans	2,034	7
<b>Subtotal Business Loans</b>	<b>11,112</b>	<b>39</b>
<b>Residential Construction Loans</b>	<b>473</b>	<b>2</b>
<b>Consumer</b>	<b>424</b>	<b>1</b>
<b>Total Loans</b>	<b>28,432</b>	<b>100</b>

## DESCRIPTION OF ASSESSMENT AREA(S)

FNB selected two adjacent census tracts in the Brownsville-Harlingen Metropolitan Statistical Area (MSA) as the bank's AA. One of the census tracts is designated as middle-income and the other is upper-income. The AA includes the city of South Padre Island, which is located in the upper-income census tract, and the cities of Port Isabel and Laguna Heights, which are in the middle-income census tract. The designation meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

According to the 2000 census, South Padre Island, a resort community located on a large barrier island along the Texas Gulf Coast, had an official population of 3,640. The population is significantly underestimated since many people split their time between vacation properties on South Padre Island and permanent residences elsewhere. Every summer and spring break, the area's population greatly increases as tourists visit South Padre Island. The tourists are primarily Texans, but many come from Mexico and other

parts of the United States. During the winter, many “Winter Texans” live in South Padre Island, or in nearby Port Isabel, which had a population of 4,865 people per the 2000 census. Tourism is the AA’s primary industry. Major employers include hotels, restaurants, condominiums, and retail establishments. The following table reflects additional demographic information of the AA based on the 2000 census.

<b>Demographic Information for AA</b>					
	<b>#</b>	<b>% Low</b>	<b>% Moderate</b>	<b>% Middle</b>	<b>% Upper</b>
Geographies (Census Tracts)	2	0%	0%	50.00%	50.00%
Population by Geography	8466	0%	0%	57.00%	43.00%
Owner Occupied Housing Units by Geography	8,857	0%	0%	23.10%	76.90%
Businesses by Geography	1,678	0%	0%	35.40%	64.60%
Farms by Geography	21	0%	0%	57.14%	42.86%
Family Distribution by Income Level	2,369	0%	0%	51.96%	48.04%
Household Distribution by Income Level	3,484	0%	0%	47.19%	52.81%
<b>Census Median Family Income (MFI)</b>					
		\$38,555	<b>Median Housing Value</b>		\$64,771
HUD – Adjusted MFI: 2011		\$50,914	<b>Households Below the Poverty Level</b>		11%
HUD – Adjusted MFI: 2010		\$48,814	<b>Unemployment Rate</b>		2%
HUD – Adjusted MFI: 2009		\$48,214			

A community contact was made recently regarding the nature of the community and potential lending opportunities. The contact spoke favorably regarding the performance of the local financial institutions.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

FNB’s performance in the lending test performance criteria is satisfactory. The bank’s average loan-to-deposit (LTD) is reasonable. The assessment of lending within the assessment areas (AA) showed a substantial majority of primary loan products originated during the review period in the AA. The distribution of loans to borrowers of different income levels and businesses of different sizes reflects reasonable penetration among borrowers of different income levels and small businesses. An analysis of loan distribution by geographic area would not be meaningful as the bank’s AA does not have any census tracts designated as low- or moderate-income. The bank received no CRA-related complaints during this evaluation period.

All criteria of the performance context are documented below:

### **Loan-to-Deposit Ratio**

FNB’s loan-to-deposit (LTD) ratio is satisfactory given the bank’s asset size, competition, financial condition, and lending opportunities in the AA. For the time period covering the last 20 quarters ending March 31, 2012, FNB’s average LTD ratio is 49 percent. This is up from the 45 percent average LTD noted in the prior CRA

Performance Evaluation. Over the same 20 quarter time period, the bank’s LTD has increased from 42 percent to 52 percent. FNB’s LTD is lower than the average LTD for the one other bank of similar size headquartered with the bank’s AA. The following table compares FNB’s LTD ratio to that of a comparable community bank in the AA.

<b>Institution</b>	<b>Total Assets as of 3/31/07 (000s)</b>	<b>Average LTD Ratio</b>
<b>First National Bank of South Padre Island</b>	59,173	49
South Padre Bank. N.A.	41,490	75

Source: Call Report information.

### Lending in Assessment Area

Based on the data reported under HMDA and our commercial loan sample, the bank makes a substantial majority of its loans within the AA. To make this determination, we reviewed residential loans originated in 2009 through 2011, and a sample of business loans originated or renewed in 2008 through 2011. Of all loans we reviewed, the bank extended 79 percent of the number and 86 percent of the dollar volume to borrowers located within the assessment area.

The following table illustrates the bank’s record of lending within the assessment area.

<b>Lending in the AA</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	45	75	15	25	60	8,692	90	992	10	9,684
Commercial	15	94	1	6	16	769	61	500	39	1,269
Total	60	79	16	21	76	9,461	86	1,492	14	10,953

Source: Data reported under HMDA: Loan Sample.

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

The distribution of loans in FNB’s AA reflects a reasonable penetration to families of different income levels and businesses of different sizes. FNB’s residential loan penetration to low- and moderate-income families is low compared to the local demographic information. FNB’s lending to small businesses is more than reasonable.

Our review of residential loan data indicates the bank’s penetration to both low- and moderate-income borrowers is low. This occurs, in part, because of the high real estate values in the AA, especially on South Padre Island. The high values prohibit many local borrowers from qualifying for residential loans in that area.

The table below shows the bank’s low penetration of residential real estate loans to low- and moderate-income borrowers.

<b>Borrower Distribution of Residential Real Estate Loans in AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
% of AA Families	16.38%		12.37%		19.25%		52.01%	
	% of Number	% of Amount						
Total	3%	0%	0%	0%	8%	4%	89%	96%

Source: Data reported under HMDA; U.S. Census data.

The table below shows the bank’s strong record of lending to small businesses. Of the business loans sampled, FNB extended 93 percent of the number and 92 percent of the dollar volume to businesses with gross annual revenues of less than \$1 million. Sixty-three percent of the businesses in the AA reported annual revenues of less than \$1 million.

<b>Borrower Distribution of Loans to Businesses in the AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	63%	3%	34%	100%
% of Bank Loans in AA by #	93%	7%	0%	100%
% of Bank Loans in AA by \$	92%	8%	0%	100%

Source: Loan sample; Dunn and Bradstreet data

### **Geographic Distribution of Loans**

An analysis of loan distribution by geographic area would not be meaningful as the bank’s AA does not have any census tracts designated as low- or moderate-income.

### **Responses to Complaints**

FNB did not receive any CRA-related complaints during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.