



# LARGE BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

**Public Disclosure**

**November 13, 2006**

Community Reinvestment Act  
**Performance Evaluation**

**Lone Star National Bank  
Charter Number: 17611**

**100 W. Ferguson  
Pharr, TX 78577**

**Office of the Comptroller of the Currency**

**San Antonio South  
10101 Reunion Place Boulevard Suite 402  
San Antonio, TX 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, 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 **Lone Star 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			
High Satisfactory	X		X
Low Satisfactory		X	
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:

- Lending activity reflects good responsiveness to credit needs in the bank’s assessment areas, given the bank’s business strategy and performance context.
- Geographic distribution of loans and the distribution of small loans to businesses were good.
- The distribution of loans among borrowers of different income levels was good.
- The level of community development loans had a neutral impact on the Lending Test performance.
- Retail service delivery systems are accessible to geographies, businesses and individuals of different income levels throughout the assessment areas.
- The bank provides a good level of community development services.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. 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.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental 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.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States 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 applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include additional data on loan pricing, the lien status of the collateral, any requests for preapproval and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited 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, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**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 Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an

employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One 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:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

## Description of Institution

Lone Star National Bank (LSNB) is an intrastate bank headquartered in Pharr, Texas. LSNB operates 18 full service branches, 4 motor banks, and 27 automated teller machines in Hidalgo, Cameron, and Starr counties. The major cities in these counties are McAllen, Edinburg, and Mission in Hidalgo County; Brownsville and Harlingen in Cameron County; and Roma and Rio Grande City in Starr County.

LSNB is a wholly owned subsidiary of Lone Star National Bancshares – Texas, Inc. a one-bank holding company based in Pharr, Texas. As of September 30, 2006, the holding company had total assets of \$1.6 billion. The holding company conducts no activity outside the activities of the bank.

As of September 30, 2006, the bank had \$1.6 billion in total assets. Net loans of \$888 million represented 56 percent of total assets. The bank's loan portfolio includes commercial real estate loans (27 percent), commercial and industrial loans (26 percent), construction and development loans (25 percent), residential real estate (9.5 percent), consumer loans (6 percent), and other loans (4 percent). Tier 1 Capital totaled \$117 million and resulted in a Tier 1 Leverage Capital ratio of 8.30 percent of assets.

LSNB offers a full range of financial products and services with particular emphasis on loans for commercial purposes, residential development, and consumer purposes.

There are no legal, financial, or other factors impeding the bank's ability to help meet the credit needs of its assessment areas. The rating at the bank's last CRA examination dated December 2, 2002, and performed under "Small Bank" CRA guidelines was "Outstanding."

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

This Performance Evaluation assesses the bank's performance under the Lending, Investment, and Service Tests. To evaluate the bank's lending performance, we reviewed residential mortgage loans subject to filing under the HMDA, small loans to businesses and farms subject to filing under the CRA, consumer loans, and community development loans. The Investment Test included a review of investments and donations made in the bank's assessment areas that meet the definition of community development investments. The Service Test included a review of retail and community development services provided in the bank's assessment areas.

The evaluation period for the Lending Test, except for community development loans, covered January 1, 2004 through September 30, 2006. For community development loans, the Investment Test, and the Service Test, the evaluation period covered December 2, 2002, the date of the last CRA evaluation, through November 13, 2006. We based our conclusions related to community development loans and qualified investments on the number and dollar amounts made during the evaluation period. We also considered the level of innovation, complexity, responsiveness to community credit needs, and the degree to which private investors do not provide these instruments.

### Data Integrity

In August 2005 and August 2006, OCC personnel verified the accuracy of data made available to the public in accordance with HMDA and CRA loan data reporting requirements. Public data includes home mortgage lending and small loans to businesses and farms. During the CRA examination, we reviewed the non-public data that management submitted for community development loans, community development investments, and community development services to ensure that they met the regulatory definition for community development. Based on verification work performed, we consider the publicly reported lending data and non-public community development data accurate.

### Selection of Areas for Full-Scope Review

During this evaluation, we performed full-scope reviews for two (67 percent) of the bank's assessment areas – Hidalgo County and Cameron County. We selected the assessment areas where the bank has a substantial share of its deposit and loan business. Combined, the two assessment areas represented 91 percent of the locations, 94 percent of the deposits, and 93 percent of the loans. We conducted a limited scope review in the remaining assessment area of Starr County.

Please refer to the tables in Appendix A for more information.

### Ratings

We based LSNB's rating primarily on the areas that received full-scope reviews. Performance in the Hidalgo County assessment area received the most weight in the overall analysis because a substantial majority of the bank's business (77 percent of total deposits and 78 percent of total loans) is located in this assessment area. Lending performance in small business loan performance received the most weight in determining the Lending Test rating, followed to a lesser extent by residential home purchase and residential home improvement

performance. Home mortgage refinance, multifamily, and small farm loans received less weight as they represent smaller percentages of the bank's lending activity.

**Other**

For this examination, we met with individuals from two community development corporations and a city government organization to determine credit needs and opportunities for financial institutions to meet those needs. We also reviewed summaries of other interviews with individuals from community groups conducted during the evaluation period. These individuals included representatives from an affordable housing organization and a small business development center. The individuals indicated a high level of community development opportunities in the assessment areas for banks to help meet community credit needs.

The individuals identified primary needs as small business, affordable housing, and economic development loans. Their comments were positive and reflected that financial institutions throughout the full-scope review areas are meeting credit needs.

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

We found no evidence of illegal discrimination or other illegal credit practices.

## 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.**"

- ▶ Lending performance in the Hidalgo County assessment area is good.
- ▶ Lending performance in the Cameron County assessment area is adequate.

These conclusions are based on the bank's performance context and the full-scope review of the two assessment areas identified above. Small business lending is the bank's primary product for evaluating CRA performance and had the most impact on the final rating. Another factor that had a positive impact on the rating was that a significant majority of loans originated within these assessment areas.

#### Lending Activity

*Refer to Table 1 Lending Volume in Appendix C for the facts and data used to evaluate the bank's lending activity.*

LSNB's responsiveness to credit needs in its assessment areas during the evaluation period is good. Identified credit needs include loans to small businesses and affordable housing. In the two assessment areas, loans to small businesses comprised 80 percent of originated loans and 18 percent were home mortgage loans. Community development lending was adequate, particularly those benefiting low- and moderate-income borrowers, and had a neutral effect on the Lending Test conclusions.

Since the last evaluation, loans and deposits grew 173 percent and 165 percent, respectively. During this period, the quarterly net loan-to-deposit ratio fluctuated between a high of 80 percent to a low of 64 percent and averaged 69 percent. This percentage is less than the peer bank average of 86 percent.

We selected the primary loan product, small loans to businesses, for assessing CRA performance. These loans represent 80 percent of total originations. We identified small loans to businesses as the majority of loans originated in each full scope area. In the Hidalgo County assessment area, the percentage was 80 percent; and in the Cameron County assessment area, it was 78 percent. Small farm loans represent 3 percent of total originations and are not a primary business line.

We also selected two home mortgage products: home purchase and home improvement. These products represent 15 percent of total loan originations. Home purchase loans represent 53 percent of total home mortgage products and home improvement loans represent 32 percent. Home refinance loans represent 9 percent of total home mortgage products and multi-family loans represent 6 percent. Neither of these two products is a primary business line.

Overall, the bank does not have a significant market share of loans or deposits in its assessment areas. The low market shares for home mortgage products in the AA's result from

the intense loan competition. Several large and aggressive mortgage lenders, such as Countrywide Home Loans, Mortgage Investment Lending Associates (MILA), Inc., Wells Fargo Home Mortgage, Home 123 Corporation, CitiFinancial, Inc. and Beneficial Homeowners Service, dominate the home mortgage lending market and capture a significant market share. We included the loan market shares solely to put home mortgage activity into perspective.

In the Hidalgo County assessment area, LSNB ranked fourth in deposit market share in 2004 (9.45 percent) and 2005 (9.91 percent). It ranked third in 2006 (12.38 percent). Based on 2005 HMDA aggregate data, LSNB had a 1.23 percent overall market share in home purchase loans (21st) and a 2.43 percent overall market share in home improvement loans (12th). Based on 2005 CRA aggregate data, LSNB had a 10.11 percent market share of small loans to businesses (3rd). LSNB's market share of home mortgage loans and small loans to businesses is less than its deposit market share.

In the Cameron County assessment area, LSNB ranked seventh in deposit market share in 2004 (6.10 percent) and sixth in 2005 (6.83 percent). It ranked seventh in 2006 (5.57 percent). Based on 2005 HMDA aggregate data, LSNB had less than a 1 percent market share in home purchase loans (44th) and less than a 1 percent market share in home improvement loans (14th). Based on 2005 CRA aggregate data, LSNB had a 4.02 percent market share in small loans to businesses (10th). LSNB's market share of home mortgage loans and small loans to businesses is less than its deposit market share.

## **Distribution of Loans by Income Level of the Geography**

### ***Home Mortgage Loans***

*Refer to Tables 2, 3, 4 and 5 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.*

LSNB's overall distribution of home mortgage loans by income level of geography is adequate in the Hidalgo County assessment area and adequate in the Cameron County assessment area.

### **Hidalgo County Assessment Area**

The geographic distribution of home purchase loans is adequate. The distribution of loans in moderate-income geographies is somewhat lower than the percentage of owner-occupied housing units. There are no low-income geographies in Hidalgo County. The bank's market share in moderate-income geographies equals the overall market share.

The geographic distribution of home improvement loans is adequate. The distribution of loans in moderate-income geographies is somewhat lower than the percentage of owner-occupied housing units. There are no low-income geographies in Hidalgo County. The bank's market share in moderate-income geographies is near to the overall market share.

### **Cameron County Assessment Area**

The geographic distribution of home purchase loans is adequate. The distribution of loans in low-income geographies substantially exceeds the percentage of owner-occupied housing units. The distribution of loans in moderate-income geographies is lower than the percentage of owner-occupied housing units. The bank's market share in low-income geographies

substantially exceeds the overall market share. The bank's market share in moderate-income geographies is somewhat lower than the overall market share.

The geographic distribution of home improvement loans is good. The bank did not originate loans in low-income geographies. The distribution of loans in moderate-income geographies is near to the percentage of owner-occupied housing units. The bank did not have a market share in low-income geographies. The bank's market share in moderate-income geographies exceeds the overall market share.

### **Small Loans to Businesses**

*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 businesses.*

LSNB's overall distribution of small loans to businesses by income level of geography is good in the Hidalgo County assessment area and adequate in the Cameron County assessment area.

### **Hidalgo County Assessment Area**

The geographic distribution of small loans to businesses in the Hidalgo County assessment area is good. The distribution of loans in moderate-income geographies is near the percentage of small businesses located in those areas. There are no low-income geographies in Hidalgo County. The bank's market share in moderate-income geographies is near the overall market share.

### **Cameron County Assessment Area**

The geographic distribution of small loans to businesses in the Cameron County assessment area is adequate. The distribution of loans in low-income geographies is somewhat lower than the percentage of small businesses in those areas. The percentage of loans in moderate-income geographies is lower than the percentage of small businesses located in moderate-income geographies. The bank's market share in low-income geographies exceeds the overall market share. The bank's market share in moderate-income geographies is somewhat lower than the overall market share.

### **Small Loans to Farms**

*Refer to Table 7 in Appendix C for facts and data regarding the geographic distribution of the bank's origination/purchase of small loans to farms. Because these loans are not a primary product line of the bank, we did not conduct an analysis. The table is included for informational purposes only.*

### **Lending Gap Analysis**

Maps and reports detailing LSNB's lending activity over the evaluation period for home mortgage and small loans to businesses were reviewed to identify gaps in the geographic distribution of those loans. We did not identify any unexplained conspicuous gaps.

### **Inside/Outside Ratio**

A substantial majority of the HMDA, small business, and small farm loans originated by LSNB during the evaluation period were within its assessment areas. Ninety-seven percent of the

total number of loans and ninety-eight percent of the total dollar volume of loans originated within the bank's assessment areas. Small business loans within the assessment areas represent 97 percent by number and 97 percent by dollar amount.

## **Distribution of Loans by Income Level of the Borrower**

### ***Home Mortgage Loans***

*Refer to Tables 8, 9, and 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.*

LSNB's distribution of home mortgage loans by income level of borrowers is poor in the Hidalgo County assessment area and poor in the Cameron County assessment area. We considered the difficulty for low- and moderate-income individuals to purchase homes in the assessment areas in our analysis of home mortgage loans.

### **Hidalgo County Assessment Area**

The distribution of home purchase loans by borrower income level is poor. When compared with a HUD Adjusted Median Family Income of \$30,800 for 2006 and an average sales price of \$120 thousand, the unsubsidized purchase of an average single-family residence might be beyond the financial means of many individuals classified as low- and moderate-income. In addition, the percentage of households below the poverty level is high at 32 percent. The percentage of loans to low-income borrowers is lower than the percentage of low-income families in the assessment area. The percentage of loans to moderate-income borrowers is lower than the percentage of moderate-income families in the assessment area. The bank's market share for low-income borrowers substantially exceeds its overall market share. The bank's market share for moderate-income borrowers exceeds its overall market share.

The distribution of home improvement loans by borrower income level is poor. The percentage of loans to low-income borrowers is lower than the percentage of low-income families in the assessment area. The percentage of loans to moderate-income borrowers is somewhat lower than the percentage of moderate-income families in the assessment area. The bank's market share for low-income borrowers exceeds its overall market share. The bank's market share for moderate-income borrowers is somewhat lower than its overall market share.

### **Cameron County Assessment Area**

The distribution of home purchase loans by borrower income level is poor. When compared with a HUD Adjusted Median Family Income of \$33,000 for 2006 and an average house price of \$135 thousand, the unsubsidized purchase of an average single-family residence might be beyond the financial means of many individuals classified as low- and moderate-income. In addition, the percentage of households below the poverty level is high at 29 percent. The percentage of loans to low-income borrowers is lower than the percentage of low-income families in the AA. The percentage of loans to moderate-income borrowers is lower than the percentage of moderate-income families in the assessment area. The bank's market share for low-income borrowers substantially exceeds the overall market share. The bank's market share for moderate-income borrowers exceeds its overall market share.

The distribution of home improvement loans by borrower income level is good. The percentage of loans to low-income borrowers is near the percentage of low-income families in

the assessment areas. The percentage of loans to moderate-income borrowers is near the percentage of moderate-income families in the assessment areas. The bank's market share for low-income borrowers is near its overall market share. The bank's market share for moderate-income borrowers exceeds its overall market share.

### **Small Loans to Businesses**

*Refer to Table 11 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.*

The distribution of loans to businesses with annual revenues of \$1 million or less is excellent in the Hidalgo County assessment area and in the Cameron County assessment area.

### **Hidalgo County Assessment Area**

LSNB's percentage of small loans to businesses with annual revenues of \$1 million or less substantially exceeds the percentage of businesses with annual revenues of \$1 million or less in the assessment area. Approximately 74 percent of the bank's small loans to businesses were in original amounts of \$100,000 or less. The bank's market share to businesses with annual revenues of \$1 million or less substantially exceeds its overall market share.

### **Cameron County Assessment Area**

LSNB's percentage of small loans to businesses with annual revenues of \$1 million or less substantially exceeds the percentage of businesses with annual revenues of \$1 million or less in the assessment area. Approximately 77 percent of the bank's small loans to businesses were in original amounts of \$100,000 or less. The bank's market share to businesses with annual revenues of \$1 million or less substantially exceeds its overall market share.

### **Small Loans to Farms**

*Refer to Table 12 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 farms. Because these loans are not a primary product line of the bank, we did not conduct an analysis. The table is included for informational purposes only.*

### **Community Development Lending**

*Refer to Table 1 Lending Volume in Appendix C for the facts and data used to evaluate the bank's level of community development lending. This table includes all CD loans, including multifamily loans that also qualify as community development loans. In addition, Table 5 includes geographic lending data on all multifamily loans, including those that also qualify as community development loans. Table 5 does not separately list community development loans, however.*

LSNB's community development lending had a neutral impact on the Lending Test conclusions in the Hidalgo County and the Cameron County assessment areas. LSNB made 10 community development loans totaling \$ 10.5 million during the evaluation period. It is possible that the bank originated many more loans that might be community development; however, the lack of proper documentation made it difficult for the bank to support and confirm that the loans met the definition of community development.

In the Hidalgo County assessment area, LSNB originated an adequate level of community development loans during the evaluation period. The bank originated ten loans totaling \$10.5 million. Examples of community development loans included a \$6 million loan to Rhodes Enterprises to develop a subdivision in a moderate-income census tract and a \$1.3 million loan to Coto de Casa, Inc., a non-profit low-income housing organization sponsored by the City of Mission. The loan purpose was to fund the purchase of land and construct homes to be included in a subsidized housing program.

LSNB did not originate any community development loans in the Cameron County assessment area.

### **Product Innovation and Flexibility**

LSNB uses flexible lending policies and practices to serve the credit needs of its assessment areas. The bank does not offer any innovative loan products. A 100 percent financed residential loan product does exist; but it is offered through the mortgage banking centers and is not specifically tied to low- or moderate-income individuals.

### **Conclusions for Areas Receiving Limited-Scope Reviews**

Based on the limited-scope reviews, the bank's performance in the Starr County assessment area is stronger than its overall performance. The geographic distribution of loans is good. The distribution of loans by borrower income is excellent. The level of community development loans had a positive impact. Refer to Tables 1 through 15 in Appendix C for the facts and data that support these conclusions.

## **INVESTMENT TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

LSNB's performance under the Investment Test is rated "Low Satisfactory." Based on full scope reviews, the bank's performance in the Hidalgo County assessment area is adequate and the performance in the Cameron County assessment area is poor.

The overall level of qualified investments is low when compared to the size of the bank. During the evaluation period, LSNB originated nine qualified investments and donations totaling \$78 thousand. LSNB retains a \$968 thousand existing investment in McAllen Housing Authority bonds that originated in the prior evaluation period. LSNB also had a \$1.4 million qualifying investment in Southmost Union Junior College District revenue bonds throughout most of the evaluation period. LSNB made this investment in July 2002 and held it until it paid out in August 2006, prior to maturity.

*Refer to Table 14 in Appendix C for the facts and data used to evaluate the bank's level of qualified investments.*

### **Conclusions for Area Receiving Limited-Scope Reviews**

Based on limited-scope reviews, the bank's performance under the investment test in the Starr County assessment area is weaker than the bank's overall "Low Satisfactory" performance under the investment test. LSNB did not originate qualified investments or donations in the Starr County assessment area. *Refer to Table 14 in Appendix C for the facts and data that support these conclusions.*

## SERVICE TEST

### Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the service test is "High Satisfactory." Based on full-scope reviews, LSNB's performance in both assessment areas is good.

#### Retail Banking Services

##### Delivery Systems

Branch distribution in Hidalgo County is not comparable to the percentage of the population residing in moderate-income census tracts. One of twelve branches (8 percent) is located in a moderate-income census tract; but 30 percent of the population resides in moderate-income census tracts. Three branches (25 percent), including the main office, are located in middle-income census tracts where 48 percent of the population resides. Eight of twelve branches (67 percent) are located in upper-income census tracts, but only 22 percent of the population resides in upper-income tracts. We noted that four of the eight branches in upper-income tracts and all three branches in middle-income tracts are located adjacent to moderate-income tracts. Overall, eight of twelve branches are located adjacent to or in moderate-income census tracts making the branches accessible. There are no low-income census tracts in Hidalgo County.

Branch distribution to moderate-income areas in Cameron County is comparable to the percentage of the population residing in those areas. One branch (25 percent) is located in a moderate-income census tract and 26 percent of the population resides in moderate-income census tracts. One (25 percent) branch is located in a middle-income census tract and 43 percent of the population resides in middle-income tracts. Two branches (50 percent) are located in upper-income census tracts and 29 percent of the population resides in upper-income tracts. The middle-income branch and one of the upper-income branches are located adjacent to moderate-income census tracts. Although no branches are located in low-income census tracts, the moderate-income branch is located adjacent to a low-income census tract. There are three low-income census tracts in Cameron County and only 2 percent of the population resides in these tracts.

The relative lack of branches in low-income census tracts is not a critical issue. As noted above, there are no low-income census tracts in Hidalgo County and only three low-income tracts in Cameron County. With the exception of the South Padre Island branch, the LSNB branches are located near US Highway 83, the primary east/west thoroughfare through the bank's assessment areas, convenient to most area residents and businesses.

Bank hours are consistent for all locations except the South McColl branch located in the Hidalgo County assessment area. This branch opens two hours earlier during the week and is not open on the weekend. The branch is located in a medical office complex where bank business volume mirrors normal office business hours.

##### **Alternative Delivery Systems**

The distribution of ATMs in the Hidalgo County assessment area is adequate. Of the 16 ATMs (twelve branch ATMs and four stand-alone) in Hidalgo County, ten or 63 percent are located in upper-income census tracts, where 22 percent of population resides. Five (31 percent) are

located in middle-income census tracts and one (6 percent) is located in a moderate-income census tract. There are no low-income census tracts in Hidalgo County.

The distribution of ATMs in the Cameron County assessment area is good. Thirty-three percent of ATMs are located in moderate-income census tracts, compared to 26 percent of the population being in those areas. Twenty-two percent of ATMs are located in middle-income census tracts with the remaining 44 percent located in upper-income census tracts. Although LSNB does not have an ATM located in the assessment area's three low-income census tracts, one ATM in Brownsville is adjacent to a low-income census tract. Only 2 percent of the population in Cameron County resides in low-income census tracts.

Internet banking services, including free bill payment, transfers between accounts, loan payments, and balance inquiry, are offered on the bank's website (lonestarnationalbank.com). The bank also offers free 24-hour access to accounts via its automated "Voice Response" phone bank program. Customers can access information related to their checking accounts, savings accounts, loan balances, interest rates, recent transactions, check verification (for merchants), and pending transactions. Customers can also transfer funds between accounts and make loan payments. In addition, the service call center of the bank is available during normal business hours Monday through Friday with services available in both English and Spanish.

No data was available to determine the effect of these services on low- and moderate-income individuals therefore these were not key considerations in drawing our overall CRA Service Test performance conclusions.

### **Opening and Closing Branches**

The record of opening branches in the assessment areas has improved the accessibility of the bank's services in both low- and moderate-income census tracts. The bank opened eleven branches since our previous examination. Two (18 percent) of the branches are located in moderate-income census tracts and one branch (9 percent) is located in a low-income census tract. Four branches are located in middle-income census tracts and four branches are located in upper-income census tracts. The branch openings actually improved the bank's performance effort in low- and moderate-income census tracts. At the previous examination, the bank had only one branch in a moderate-income census tract and no branches in low-income census tracts.

Branch openings in the Hidalgo County assessment area have improved the accessibility of bank services to moderate- income geographies. One of the new branches actually is located in a moderate -income census tract. All three new branches located in middle-income census tracts are adjacent to moderate-income census tracts. Two of the three new branches in upper-income census tracts are located adjacent to moderate-income census tracts. There are no low-income census tracts in the county.

Branch openings in the Cameron County assessment area have improved the accessibility of bank services to low- and moderate-income geographies. One new branch is located in a moderate-income census tract adjacent to other moderate-income census tracts, as well as to a low-income census tract, making it reasonably accessible to people residing in those geographies. Another new branch is located in a middle-income census tract that also adjoins other moderate-income census tracts. The third new branch is located on South Padre Island

in an upper-income census tract and does not adjoin any low- or moderate-income census tracts.

LSNB did not close any branches during the evaluation period.

### **Other Retail Banking Services**

LSNB offers a variety of loan and deposit products at its many locations. The Mortgage Department offers 100 percent financing on residential loans. Low- or moderate-income borrowers could use this product if they are having trouble accumulating funds for down payment. Two deposit products are of particular use to low- or moderate-income individuals:

Free Checking - This account requires \$ 50 to open and does not assess a monthly service fee. No minimum balance is required and the account offers unlimited check writing.

Free Business Checking - Aimed at small businesses, this account requires \$ 50 to open and is not assessed a monthly service fee. No minimum balance is required, no per item fees apply, and accounts are allowed 400 items per month.

### **Community Development Services**

Efforts demonstrate a commitment to community development through providing technical assistance on financial and banking related matters to community groups. For example, bank officers are active in providing "financial literacy" type presentations in area schools (mostly for school district employees) as well as other community organizations. Other examples of LSNB's community development services are listed below:

#### Rio Grande Valley MultiBank

A bank officer serves on the board of the Rio Grande MultiBank, which has been very active in providing affordable housing in cooperation with the Community Development Corporation of Brownsville's Affordable Housing Loan Program and Rural and Colonia Loan Programs. The organization has helped over 2,000 low-income families in Cameron County achieve home ownership. In addition to directly investing in the community development bank, LSNB provided financing to various projects with eleven loans, including loans for individual small residential properties as well as large residential developments.

McAllen Affordable Homes, Inc. (MAHI) – Through McAllen Affordable Homes, the bank is involved in the Federal Home Loan Bank HELP program aimed at providing affordable home loans to first time low- and moderate-income homebuyers. The program provides matching funds for down payment and closing cost assistance to qualified applicants. LSNB facilitated the funding of nine low-income residential loans as part of the program, donating \$ 350 each for down payment assistance. The bank has directly funded several MAHI projects. MAHI is also active in financial education efforts, offering monthly homebuyer classes as well as one-on-one homebuyer counseling.

Bank officers participate in a variety of other organizations including Children's Defense Fund, Mujeres Unidas and La Rosita Head Start program. Officers are also involved in a large number of local service organizations (Kiwanis, Rotary and some Chamber of Commerce functions, as well as a variety of medical and school organizations). The bank has a primarily commercial lending focus and this is reflected in community development organizations,

including Starr County Industrial Foundation and the UT - Pan American Small Business Development Center.

**Conclusions for Areas Receiving Limited Scope Reviews**

Based on limited-scope reviews, the bank's performance under the Service Test in the Starr County assessment area is stronger than the overall low satisfactory performance under the Service Test. Two branches are located in Starr County. One branch is located in a low-income census tract and the other branch is located in a moderate-income census tract. The distribution of the two branches is nearly proportional to the population distribution in the county. However, the stronger performance in Starr County is not sufficient to offset the weaker performance in the other ASSESSMENT AREA's. *Refer to Table 15 in Appendix C for the facts and data to support this conclusion.*

## Appendix A: Scope of Examination

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The following table identifies the time period covered in this evaluation, affiliate activities 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”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD Loans): 01/01/2004 to 09/30/2006 Investment and Service Tests and CD Loans: 12/02/2002 to 11/13/2006	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Lone Star National Bank Pharr, Texas	HMDA, CRA, Community Development Loans, Community Development Investments, and Community Development Services	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
None		
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Hidalgo County	Full Review	Includes the entire McAllen-Edinburg-Mission MSA
Cameron County	Full Review	Includes the entire Brownsville-Harlingen MSA
Starr County	Limited Review	Non-metropolitan area

## Appendix B: Market Profiles for Full-Scope Areas

### Hidalgo County Assessment Area

Demographic Information for Full Scope Area: Hidalgo County Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	80	0.00	28.75	47.50	23.75	0.00
Population by Geography	569,463	0.00	29.73	48.29	21.98	0.00
Owner-Occupied Housing by Geography	114,570	0.00	27.56	48.45	23.99	0.00
Business by Geography	21,327	0.00	18.20	38.98	42.81	0.00
Farms by Geography	581	0.00	12.22	47.85	39.93	0.00
Family Distribution by Income Level	133,186	23.48	16.86	17.67	41.98	0.00
Distribution of Low and Moderate Income Families throughout Assessment Area Geographies	53,733	0.00	37.97	48.96	13.07	0.00
Median Family Income		= \$25,988	Median Housing Value			= \$49,916
HUD Adjusted Median Family Income for 2006		= \$30,800	Unemployment Rate (2000 US Census)			= 4.33%
Households Below Poverty Level		= 32%				

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

Source: 2000 US Census and 2006 HUD updated MFI

The bank identified all of Hidalgo County as an assessment area. The county comprises the McAllen-Edinburg-Mission MSA. These three cities are located essentially adjacent to each other. The defined assessment area meets the requirements of the CRA, and does not arbitrarily exclude any moderate-income tracts. The assessment area does not include any low-income tracts. The bank's activities in the Hidalgo County assessment area received a full-scope review.

LSNB's main competitors in the assessment area, in terms of total assets, are locally based Texas State Bank (\$5.2 billion), First National Bank (\$3 billion), and Inter National Bank of McAllen (\$978 million) and several smaller community banks. Several regional and multi-state banks have branches in Hidalgo County. These banks include JPMorgan Chase Bank, International Bank of Commerce of Laredo (\$5.7 billion), and Frost National Bank (\$9.3 billion).

As of September 30, 2006, deposits in the Hidalgo County assessment area represented 77 percent of LSNB's total deposits. Of the total HMDA and CRA loans reported during the evaluation period, 78 percent originated in this assessment area. The bank operates 12 full service branches and 16 ATMs in Hidalgo County. As of June 30, 2006, LSNB ranked third in deposits with a 12.38 percent market share. LSNB offers a full-range of products and services, with particular emphasis on loans to small businesses.

The metropolitan area of McAllen remains one of the fastest growing in the state and in the nation making it the second largest residential center along the border, after El Paso, Texas. The growing population base has led to growth in the metro area's housing, education, health, finance, and personal services industries. Local manufacturing added jobs and tourism areas accelerated their hiring. While McAllen is not nearly as dependent on trade as other border metro areas, trade activity still defines broader economic conditions. Strong growth in the metro area resulted in accelerating per capita income growth, but due to the high poverty rate, it still ranks last among the nation's metro areas.

Hidalgo County has experienced consistent employment growth in recent years. While the unemployment rate for Hidalgo County is higher than the state (5.3 percent) and national averages, the rate continues to decline. Hidalgo County reported an estimated annual unemployment rate of 7.6 percent for 2006.

The high growth in the McAllen-Edinburg-Mission MSA has resulted in continued high demand for loans to small businesses and purchase money mortgage loans in the bank's trade area. The average cost of a new home is \$75.5 thousand. The demand for low- and moderate-income housing remains high, especially with the high poverty level and unemployment rate.

Hidalgo County has a good level of community development opportunities. Individuals associated with community groups identified needs that include small business financing, affordable housing, and small consumer loans. Government and non-profit organizations in the county, such as the McAllen Housing Authority, South Texas Economic Development Corporation, and McAllen Affordable Homes, Inc., help provide home ownership counseling, construction, and financing of affordable homes.

**Cameron County Assessment Area**

Demographic Information for Full Scope Area: Cameron County Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	86	3.49	27.91	39.53	29.07	0.00
Population by Geography	335,227	2.26	25.87	42.69	29.18	0.00
Owner-Occupied Housing by Geography	65,854	0.87	21.06	43.90	34.18	0.00
Business by Geography	13,436	2.42	28.36	32.82	36.40	0.00
Farms by Geography	426	0.23	11.03	56.57	32.16	0.00
Family Distribution by Income Level	80,213	23.75	16.04	17.82	42.40	0.00
Distribution of Low and Moderate Income Families throughout Assessment Area Geographies	31,915	3.63	33.93	43.20	19.24	0.00
Median Family Income		= 28,017	Median Housing Value			= 55,770
HUD Adjusted Median Family Income for 2006		= 33,000	Unemployment Rate (2000 US Census)			= 4.18%
Households Below Poverty Level		= 29%				

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 US Census and 2006 HUD updated MFI

LSNB designated Cameron County as an assessment area, and it includes the Brownsville-Harlingen-San Benito MSA. The defined assessment area meets the requirements of the CRA, and does not arbitrarily exclude any low- or moderate-income tracts. Major cities are Brownsville, Harlingen, and San Benito. The bank’s activities in the Cameron County assessment area received a full-scope review.

LSNB faces strong competition in the Cameron County assessment area market from multinational and regional banking companies, such as Texas State Bank, Wells Fargo, First National Bank, International Bank of Commerce, and JP Morgan Chase Bank. Several other Rio Grande Valley community banks also have branches in the assessment area. As of June 30, 2006, Cameron County deposits represented 17 percent of total bank deposits. Of the total HMDA and CRA loans reported during the evaluation period, 15 percent originated in this assessment area. LSNB ranks seventh in deposits with a 5.57 percent market share in Cameron County. The bank operates four full service branches and nine ATMs in this assessment area. LSNB offers a full-range of banking products and services in the assessment area, with particular emphasis on loans to small businesses.

Demographic and economic conditions in Cameron County differ somewhat from the adjacent Hidalgo County. Job growth is slower in Brownsville than in McAllen. The major employment sectors include services, trade, and government. A concentrated industrial base, one concentrated in lower tech, lower-paying jobs in retail and hospitality industries weighs on income growth. Industrial diversity has shrunk over the past decade. Cameron County reported an estimated annual unemployment rate of 7.4 percent for 2006, which is higher than the state average of 5.3 percent.

Market data on HMDA lending indicates there is a lower than average demand for purchase money mortgage loans in the bank's trade area. The high level of families below the poverty level, coupled with the high unemployment rate, often means that many cannot qualify for home mortgage loans. This assessment area does not have the high growth levels that the Hidalgo County assessment area has to help mitigate these factors.

There are a number of community development opportunities in the Cameron County assessment area, and competition among financial institutions for participation is strong. Community development opportunities are mainly in affordable housing. Community contacts identified the continued need for more affordable housing and small business financing.

## Appendix C: Tables of Performance Data

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### 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: (1) 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 MA/assessment area; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Tables without data are not included in this PE.

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 MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column with the appropriate caption, such as: “Statewide/Regional,” “Statewide/Regional with potential benefit to one or more assessment areas” or “Out of Assessment Area.” “Out of Assessment Area” is used ONLY if the bank has otherwise adequately met the CD lending needs of its assessment area.

**Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.

**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 Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units 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 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 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 assessment area.
- Table 7. 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 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 assessment area.
- Table 8. 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 MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Home Mortgage Refinance Loans** - See Table 8.
- Table 11. 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 12. 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 13. 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 MA/assessment area.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/ASSESSMENT AREA. 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.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column with the appropriate caption, such as: "Statewide/Regional," "Statewide/Regional with potential benefit to one or more ASSESSMENT AREAs" or "Out of Assessment Area." "Out of the Assessment Area" is used ONLY if the bank has otherwise adequately met the qualified investment needs of its assessment area.

**Table 15. 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 MA/ASSESSMENT AREA. The table also presents data on branch openings and closings in each MA/ASSESSMENT AREA.

**Table 1. Lending Volume**

LENDING VOLUME		Geography: TEXAS				Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006						
MA/Assessment Area (2006):	% of Rated Area Loans (#) in MA/AA	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
<b>Full Review:</b>												
Hidalgo County	78.32	782	84,212	3,495	408,925	88	141,764	10	10,459	4,375	645,360	76.56
Cameron County	14.71	159	17,771	638	56,090	25	2,523	0	0	822	76,384	17.46
<b>Limited Review:</b>												
Starr County	6.96	96	2,177	226	13,879	60	20,280	7	3,305	389	39,641	5.97

\* Loan Data as of September 30, 2006. Rated area refers to either state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is from December 2, 2002 to September 30, 2006.

\*\*\* Deposit Data as of June 30, 2006. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE			Geography: TEXAS				Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006					Market Share (%) by Geography				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans						
<b>Full Review:</b>																
Hidalgo County	416	77.47	0.00	0.00	27.56	15.38	48.45	37.02	23.99	47.60	1.63	0.00	1.63	1.64	1.63	
Cameron County	86	16.01	0.87	4.65	21.06	8.14	43.90	27.91	34.18	59.30	0.58	1.09	0.31	0.49	0.66	
<b>Limited Review:</b>																
Starr County	35	6.52	60.31	54.29	39.69	45.71	0.00	0.00	0.00	0.00	6.60	6.19	7.14	0.00	0.00	

\* Based on 2005 Peer Mortgage Data (Western)

\*\* Home purchase loans originated and purchased in the MA/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 units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 3. Geographic Distribution of Home Improvement Loans**

Geographic Distribution: HOME IMPROVEMENT		Geography: TEXAS								Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006					
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% Owner Occ***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Hidalgo County	255	71.03	0.00	0.00	27.56	16.08	48.45	42.35	23.99	41.57	6.83	0.00	6.25	5.66	8.89
Cameron County	44	12.26	0.87	0.00	21.06	20.45	43.90	36.36	34.18	43.18	2.33	0.00	3.36	2.00	2.31
<b>Limited Review:</b>															
Starr County	60	16.71	60.31	51.67	39.69	48.33	0.00	0.00	0.00	0.00	19.32	19.23	19.44	0.00	0.00

\* Based on 2005 Peer Mortgage Data (Western)

\*\* Home improvement loans originated and purchased in the MA/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 units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 4. Geographic Distribution of Home Mortgage Refinance Loans**

Geographic Distribution: HOME MORTGAGE REFINANCE			Geography: TEXAS				Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006					Market Share (%) by Geography*				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Owner Occ Units***	% BANK Loans****	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans						
<b>Full Review:</b>																
Hidalgo County	63	73.26	0.00	0.00	27.56	15.87	48.45	34.92	23.99	49.21	0.56	0.00	0.82	0.32	0.75	
Cameron County	22	25.58	0.87	0.00	21.06	22.73	43.90	31.82	34.18	45.45	0.23	0.00	0.23	0.29	0.19	
<b>Limited Review:</b>																
Starr County	1	1.16	60.31	0.00	39.69	100.00	0.00	0.00	0.00	0.00	0.49	0.00	1.19	0.00	0.00	

\* Based on 2005 Peer Mortgage Data (Western)

\*\* Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2000 Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 5. Geographic Distribution of Multifamily Loans**

Geographic Distribution: MULTIFAMILY		Geography: TEXAS						Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006							
MA/Assessment Area:	Total Multifamily Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography				
	#	% of Total**	% of MF Units***	% BANK Loans****	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	% MF Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Hidalgo County	48	87.27	0.00	0.00	11.56	18.75	31.77	39.58	56.67	41.67	17.39	0.00	13.33	8.57	26.19
Cameron County	7	12.73	2.93	0.00	15.31	14.29	19.84	57.14	61.92	28.57	9.68	0.00	20.00	20.00	0.00
<b>Limited Review:</b>															
Starr County	0	0.00	24.75	0.00	75.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

\* Based on 2005 Peer Mortgage Data (Western)

\*\* Multi-family loans originated and purchased in the MA/AA as a percentage of all multi-family loans originated and purchased in the rated area.

\*\*\* Percentage of Multi Family Units is the number of multi family units in a particular geography divided by the number of multifamily housing units in the area based on 2000 Census information.

\*\*\*\* Multifamily loan distribution includes Home Purchases, Home Improvement and Refinances.

**Table 6. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES			Geography: TEXAS						Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006						
MA/Assessment Area:	Total Small Business Loans		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	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Hidalgo County	3,484	80.17	0.00	0.00	18.66	16.25	41.50	30.80	39.84	52.96	10.11	0.00	9.65	8.79	12.41
Cameron County	636	14.63	2.31	1.42	29.04	14.47	33.50	29.25	35.15	54.87	4.02	4.73	3.17	3.78	5.17
<b>Limited Review:</b>															
Starr County	226	5.20	46.41	31.86	53.59	68.14	0.00	0.00	0.00	0.00	13.75	10.78	18.18	0.00	0.00

\* Based on 2005 Peer Small Business Data -- US and PR

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

\*\*\* Source Data - Dun and Bradstreet (2005).

**Table 7. Geographic Distribution of Small Loans to Farms**

Geographic Distribution: SMALL LOANS TO FARMS		Geography: TEXAS				Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006									
MA/Assessment Area:	Total Small Farm Loans		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	Overa ll	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Hidalgo County	85	50.30	0.00	0.00	13.11	25.88	56.97	41.18	29.92	32.94	9.60	0.00	12.86	8.77	10.20
Cameron County	25	14.79	0.22	0.00	13.25	8.00	51.66	72.00	34.88	20.00	4.76	0.00	2.63	6.54	3.70
<b>Limited Review:</b>															
Starr County	59	34.91	60.47	45.76	39.53	54.24	0.00	0.00	0.00	0.00	26.21	45.00	14.29	0.00	0.00

\* Based on 2005 Peer Small Business Data -- US and PR

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

\*\*\* Source Data - Dun and Bradstreet (2005).

**Table 8. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE		Geography: TEXAS					Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006					Market Share				
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Families***	% BANK Loans****	% Families <sup>1</sup>	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****						
<b>Full Review:</b>																
Hidalgo County	416	77.47	23.48	2.89	16.86	7.11	17.67	12.37	41.98	77.63	1.87	6.93	2.30	1.74	1.79	
Cameron County	86	16.01	23.75	5.13	16.04	7.69	17.82	15.38	42.40	71.79	0.67	2.27	0.94	0.50	0.64	
<b>Limited Review:</b>																
Starr County	35	6.52	51.01	23.53	19.87	11.76	13.68	35.29	15.45	29.41	6.90	15.38	4.17	8.51	6.06	

\* Based on 2005 Peer Mortgage Data (Western)

\*\* As a percentage of loans with borrower income information available. No information was available for 8.4% of loans originated and purchased by bank.

\*\*\* Percentage of Families is based on the 2000 Census information.

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

<sup>1</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 9. Borrower Distribution of Home Improvement Loans**

Borrower Distribution: HOME IMPROVEMENT		Geography: TEXAS					Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006					Market Share				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Families ***	% BANK Loans****	% Families <sup>2</sup>	% BANK Loans****	% Families ***	% BANK Loans****	% Families ***	% BANK Loans****						
<b>Full Review:</b>																
Hidalgo County	255	71.03	23.48	8.02	16.86	12.30	17.67	17.65	41.98	62.03	5.27	9.24	4.19	5.61	4.79	
Cameron County	44	12.26	23.75	21.88	16.04	15.63	17.82	6.25	42.40	56.25	1.34	1.10	1.55	0.69	1.57	
<b>Limited Review:</b>																
Starr County	60	16.71	51.01	31.37	19.87	25.49	13.68	23.53	15.45	19.61	13.58	23.08	6.67	16.67	7.69	

\* Based on 2005 Peer Mortgage Data (Western)

\*\* As a percentage of loans with borrower income information available. No information was available for 24.8% of loans originated and purchased by bank.

\*\*\* Percentage of Families is based on the 2000 Census information.

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

<sup>2</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table 10. Borrower Distribution of Home Mortgage Refinance Loans**

Borrower Distribution: HOME MORTGAGE REFINANCE		Geography: TEXAS						Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006							
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share <sup>*</sup>				
	#	% of Total <sup>**</sup>	% Families <sup>***</sup>	% BANK Loans <sup>****</sup>	% Families <sup>3</sup>	% BANK Loans <sup>****</sup>	% Families <sup>***</sup>	% BANK Loans <sup>****</sup>	% Families <sup>***</sup>	% BANK Loans <sup>****</sup>	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Hidalgo County	63	73.26	23.48	3.33	16.86	6.67	17.67	10.00	41.98	80.00	0.63	1.45	0.00	0.63	0.68
Cameron County	22	25.58	23.75	0.00	16.04	4.76	17.82	9.52	42.40	85.71	0.28	0.00	0.00	0.00	0.41
<b>Limited Review:</b>															
Starr County	1	1.16	51.01	0.00	19.87	0.00	13.68	0.00	15.45	100.00	0.53	0.00	0.00	0.00	1.20

<sup>\*</sup> Based on 2005 Peer Mortgage Data (Western)

<sup>\*\*</sup> As a percentage of loans with borrower income information available. No information was available for 4.7% of loans originated and purchased by bank.

<sup>\*\*\*</sup> Percentage of Families is based on the 2000 Census information.

<sup>\*\*\*\*</sup> Home refinance loans originated and purchased in the MA/AA as a percentage of all home refinance loans originated and purchased in the rated area.

<sup>3</sup> Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

**Table11. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES				Geography: TEXAS		Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006			
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share <sup>*</sup>	
	#	% of Total <sup>**</sup>	% of Businesses <sup>***</sup>	% BANK Loans <sup>****</sup>	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Hidalgo County	3,484	80.17	63.62	89.38	74.05	14.87	11.08	10.11	15.23
Cameron County	636	14.63	60.88	90.25	77.04	16.19	6.76	4.02	6.59
<b>Limited Review:</b>									
Starr County	226	5.20	60.17	97.79	85.40	10.62	3.98	13.75	21.82

<sup>\*</sup> Based on 2005 Peer Small Business Data -- US and PR

<sup>\*\*</sup> Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

<sup>\*\*\*</sup> Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&B - 2005).

<sup>\*\*\*\*</sup> 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 0.39% of small loans to businesses originated and purchased by the bank.

**Table12. Borrower Distribution of Small Loans to Farms**

Borrower Distribution: SMALL LOANS TO FARMS		Geography: TEXAS			Evaluation Period: JANUARY 1, 2004 TO SEPTEMBER 30, 2006				
MA/Assessment Area:	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 Farms***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev\$ 1 Million or Less
<b>Full Review:</b>									
Hidalgo County	85	50.30	81.18	82.35	58.82	32.94	8.24	9.60	9.63
Cameron County	25	14.79	89.18	96.00	64.00	32.00	4.00	4.76	5.62
<b>Limited Review:</b>									
Starr County	59	34.91	72.09	98.31	91.53	8.47	0.00	26.21	27.37

\* Based on 2005 Peer Small Business Data -- US and PR

\*\* Small loans to farms originated and purchased in the MA/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 farms (Source D&B - 2005).

\*\*\*\* 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 0.59% of small loans to farms originated and purchased by the bank.

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS									
Geography: TEXAS									
Evaluation Period: DECEMBER 2, 2002 TO SEPTEMBER 30, 2006									
MA/Assessment Area:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Hidalgo County	1	968	6	76	7	1,044	99.81	4	22
Cameron County	0	0	3	2	3	2	0.19	0	0
<b>Limited Review:</b>									
Starr County	0	0	0	0	0	0	0.00	0	0

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

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

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings**

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS				Geography: TEXAS				Evaluation Period: DECEMBER 2, 2002 TO SEPTEMBER 30, 2006									
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings				Population					
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Hidalgo County	76.56	12	66.67	0.00	8.33	25.00	66.67	7	0	0	1	3	3	0.00	29.73	48.29	21.98
Cameron County	17.46	4	22.22	0.00	25.00	25.00	50.00	3	0	0	1	1	1	2.26	25.87	42.69	29.18
<b>Limited Review:</b>																	
Starr County	5.97	2	11.11	50.00	50.00	0.00	0.00	1	0	1	0	0	0	60.07	39.93	0.00	0.00