



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**August 13, 2007**

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

**First National Bank of South Padre Island  
Charter Number 18063**

**709 Padre Boulevard  
South Padre Island, TX 78597**

**Comptroller of the Currency  
San Antonio South Field Office  
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, 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.**

First National Bank of South Padre Island's lending performance reflects a satisfactory response to community credit needs including low- and moderate-income individuals. This rating is supported by the following factors:

- The average loan-to-deposit ratio of 45.09 percent for the prior 22 quarters is reasonable given the bank's size, financial condition, market focus, competition, and lending opportunities in the assessment area.
- A substantial majority of our sample of loan originations, representing 83 percent of the number and 93 percent of the dollar volume, were within the bank's assessment area.
- The distribution of loans reflects a reasonable penetration to families of different income levels and businesses of different sizes.

## **SCOPE OF EXAMINATION**

The scope of the CRA examination covered the time period since the date of the prior Performance Evaluation (PE) of April 1, 2002, to August 13, 2007. First National Bank of South Padre Island's (FNB) primary loan products are residential loans and business loans that include construction/land development, commercial real estate, and commercial loans. This sample is representative of the bank's business strategy since the last examination.

## **DESCRIPTION OF INSTITUTION**

FNB is a wholly owned subsidiary of Laguna Madre Bancshares Corporation, South Padre Island, Texas, which is a wholly owned subsidiary of Laguna Madre Delaware Bancshares. Laguna Madre Bancshares had assets of \$3 million as of June 30, 2007. FNB's main office is located in South Padre Island, Cameron County, with a branch in Port Isabel, also located in Cameron County. Both locations provide basic banking services including 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 in its communities. 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 April 1, 2002. FNB has total assets of \$53 million with total loans of \$21 million, or 40 percent of total assets, as of July 31, 2007. A summary of the bank's lending activity as of June 30, 2007, is reflected in the following table.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Construction/Land Development	7,452	35
Commercial Real Estate	5,416	26
Commercial	2,229	10
Subtotal Business Loans	15,097	71
Residential Real Estate	5,013	24
Consumer	1,087	5
<b>Total Loans</b>	<b>21,197</b>	<b>100</b>

*Source: June 30, 2007 Consolidated Report of Condition*

## **DESCRIPTION OF ASSESSMENT AREA (AA)**

FNB has designated its AA as two adjacent census tracts (CTs), one middle-income and one upper-income, that are part of the Brownsville-Harlingen, Texas, Metropolitan Statistical Area (MSA). The AA includes of the city of South Padre Island that is in the upper-income CT, and the cities of Port Isabel and Laguna Heights that are in the middle-income CT. The AA reasonably represents the bank's lending and service area. The designation meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

As of 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 in the Rio Grande Valley. Every summer and spring break, tourists greatly increase South Padre Island's population. The tourists are primarily Texans but many come from Mexico. During the winter, many "Winter Texans" live in South Padre Island, or in nearby Port Isabel that had a population of 4,865 people as of the 2000 census. Tourism is the AA's primary industry. Major employers are hotels, restaurants, condominiums, and retail establishments. The following table reflects additional demographic information of the AA based on the 2000 census.

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.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	2,369
Number of Households	3,484
<i>Geographies</i>	
Number of Census Tracts	2
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	50.00%
% Upper-Income Census Tracts	50.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$28,017
2005 HUD-Adjusted MFI	\$32,300
2006 HUD-Adjusted MFI	\$33,000
<i>Economic Indicators</i>	
Unemployment Rate-AA	1.77%
2000 Median Housing Value	\$110,967
% Households Below Poverty Level	17.28%
% Owner Occupied Housing	26.31%

Source: U.S. Census Data.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is satisfactory given its asset size, competition, financial condition, and lending opportunities in the AA. The average LTD ratio for the last 22 quarters ending June 30, 2007, is 45 percent, which is slightly lower than the 46 percent noted in the prior PE. The bank's LTD ratios ranged from 39 percent to 50 percent. Since the prior PE, competition in the bank's AA has increased as two regional banks have opened branches in addition to the two established regional branches. Even with increased competition, management has been able to maintain the bank's loan portfolio of \$27 million which is approximately the same size as noted in the prior PE. 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>
South Padre Bank, N.A.	39,297	85
<i>First National Bank of South Padre Island</i>	53,339	45

Source: Call Report information.

### **Lending in Assessment Area**

The bank extends a substantial majority of its loans to borrowers in the AA. To arrive at this assessment, we reviewed residential related loans originated in 2005 through June 2007, and a random sample of business loans originated or renewed in 2005 through June 2007. Of our total sample of loans, 83 percent of number, and 93 percent of dollar volume, were made to borrowers in the AA.

<b>Total Loans Reviewed</b>										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	17	85	3	15	20	2,358	85	417	15	2,775
Residential	72	83	15	17	87	12,171	95	663	5	12,834
Totals	89	83	18	17	107	14,529	93	1,080	7	15,609

Source: Loan sample; data reported under HMDA.

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

The distribution of loans in the 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 borrowers is reasonable. FNB's lending to small businesses is more than reasonable.

Our sample of residential related loans indicates the bank's penetration to both low- and moderate-income borrowers is low. This is due, in part, to high real estate values in the AA, especially in South Padre Island, that prevent many local borrowers from qualifying for residential loans in that area.

In an effort to better serve the Port Isabel area, where 75 percent of the AA's low- and moderate-income households reside, the bank has recently moved a full-time lender to the Port Isabel branch. In addition, the bank entered into an agreement with TIB Mortgage to originate home mortgage loans with a 5 percent down payment, which is lower than the bank's in-house requirement of a 20 percent down payment. Bank management anticipates this program will be fully implemented by September 30, 2007.

<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%		52.00%	
	% of Number	% of Amount						
Total	4.17%	0.02%	4.17%	0.49%	15.28%	2.51%	76.38%	96.98%

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

As indicated in the table below, FNB’s lending to small businesses is more than reasonable and exceeds the standard for satisfactory performance. In our sample of 20 business loans totaling \$3 million, 85 percent of the number, and 74 percent of the dollar volume, of loans were made to businesses with annual revenues equal to, or less than, \$1 million. In addition, 80 percent of the number of loans was made to businesses with annual revenues equal to or less than \$500 thousand.

<b>Borrower Distribution of Loans to Businesses in AA</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	66%	3%
% of Bank Loans in AA #	85%	15%
% of Bank Loans in AA \$	74%	26%

Source: 2006 Business Geodemographic Data; loan sample.

\*The remaining 31 percent of business in this AA did not report revenues during this evaluation period.

### **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 low- and moderate-income areas.

### **Responses to Complaints**

There have been no consumer complaints during this evaluation period regarding the bank’s CRA performance.

### **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.