



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 30, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

South Padre Bank, N.A.
Charter Number: 23670

2701 South Padre Boulevard
South Padre Island, Texas 78597

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

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

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

The lending performance of South Padre Bank, N.A. reflects a satisfactory response to community credit needs. This rating is supported by the following factors.

- The average quarterly loan-to-deposit ratio of 86 percent since the previous CRA examination is strong considering the bank's financial condition, market focus, and lending opportunities available in the assessment area.
- A majority of loans in our sample, representing 75 percent by number and 77 percent by dollar volume, are 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.
- South Padre Island does not have any low- or moderate-income areas. Therefore, an analysis of the geographical distribution of the bank's lending efforts would not be meaningful.

SCOPE OF EXAMINATION

Our review consisted of a full scope CRA examination covering the time period from March 2002 through March 2007. The two primary lending products are residential and commercial real estate. Because of this, our review focused on these two products in our sample for the lending component portion of this examination. Our loan sample consisted of 48 residential loans and 20 commercial real estate loans made since the previous CRA review in February 2002. Since the bank operates within just one census tract, South Padre Island, our focus centered on residential and small business loans within this assessment area.

DESCRIPTION OF INSTITUTION

South Padre Bank, N.A. (SPB) is a community bank with one main office located in the resort city of South Padre Island, Cameron County, Texas. As of March 31, 2007, total assets were \$36.7 million, and net loans represented 75 percent of total assets. SPB is independently owned and does not belong to a holding company, nor does it have any other affiliate relationships. There are no branch offices. The bank operates one automated teller machine (ATM) located on bank premises. The last CRA examination was performed in February 2002, and the bank was rated Satisfactory. There are no legal or other impediments that would limit the bank's ability to meet the credit needs of the assessment area (AA).

Tourism is the area's primary industry with major employers consisting of hotels, condominiums, restaurants, and other service organizations. Competition consists of one other community bank and the branch offices of three regional banks. Management of SPB considers the other community bank in the AA to be its primary competition. This institution is locally owned, has total assets of \$49 million, and is the most similarly situated.

The following table depicts SPB's loan portfolio composition as of March 31, 2007:

Loan Category	\$ (000)	%
Residential Real Estate	11,913	43.21
Commercial RE	6,796	24.65
Construction and Land Dev.	4,780	17.34
Commercial/Industrial	2,473	8.97
Consumer	918	3.33
Agricultural and Farm Land	686	2.50
Total	27,566	100

DESCRIPTION OF ASSESSMENT AREA (AA)

The bank's AA is the city of South Padre Island, Texas. South Padre Island is a resort community located in Cameron County on the Gulf of Mexico approximately 30 miles from Brownsville, Texas. The AA consists of only one census tract that is part of the Brownsville/Harlingen Metropolitan Statistical Area (MSA). This census tract is defined as upper income, and based on the 2000 census, reported a population of 3,640. 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- or moderate-income geographies. The family income distribution of the AA is 8.44 percent low income, 6.50 percent moderate income, 13.01 percent middle income, and 72.05 percent upper income. The updated 2007 Housing and Urban Development (HUD) median family income for the MSA is \$33,000. South Padre Island has a 2007 median family income of \$51,833, or 157 percent of the MSA median family income.

As part of our examination we contacted a local business group leader. This contact stated that tourism continues as the mainstay of South Padre Island's economy. She also agreed that the high real estate values on the island restrict residential lending activity for low and moderate income individuals. She indicated that the primary credit need is commercial loans for small businesses catering to tourism. This contact indicated the local economy remains solid and spoke favorably of bank efforts to meet the credit needs of the community.

The following table reflects additional demographic information based on the 2000 census:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	1,138
Number of Households	1,840
Geographies	
Number of Census Tracts	1
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	0%
% Upper-Income Census Tracts/BNA	100%
<i>Median Family Income (MFI)</i>	
2007 MFI for AA	51,833
2007 HUD-Adjusted MFI	33,000
2006 HUD-Adjusted MFI	33,000
2005 HUD-Adjusted MFI	32,300
Economic Indicators	
Unemployment Rate	1.73%
Percent of Owner Occupied Housing	19.82%
2000 Median Housing Value	\$128,200
% of Households Below Poverty Level	9.95%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio – exceeds standards for satisfactory performance

SPB's loan-to-deposit ratio is strong. For the previous 20 quarters from March 2002 through March 2007, the average quarterly loan-to-deposit ratio has been 86 percent. During this time period, this ratio has ranged from a low of 73 percent to a high of 104 percent. During the past four quarters this ratio has averaged 91 percent. These ratios compare favorably to the bank's primary competitor within the AA which averaged 45 percent during the same time period.

Lending in Assessment Area – meets standards for satisfactory performance

Lending within the AA is satisfactory. The AA consists of just one census tract which is South Padre Island. Our sample of residential and commercial real estate loans indicated that 75 percent of the number of loans in our sample, and 77 percent of the dollar volume of loans, were made within the AA.

The following table illustrates the distribution of these loans:

TOTAL LOANS REVIEWED								
LOAN TYPE	IN AA				OUT OF AA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	36	75	6,025	85	12	25	1,094	15
Commercial RE	15	75	3,913	68	5	25	1,834	32
Total Reviewed	51	75	9,938	77	17	25	2,928	23

Source: Loan sample; data reported under HMDA.

Lending to Borrowers of Different Incomes and/or Businesses of Different Sizes – meets standards for satisfactory performance

Our sample focused on the bank’s primary product lines, residential and commercial real estate loans, originated since the previous CRA examination. Sample results indicated that 89 percent of the residential loans in the AA were to upper income borrowers, 7 percent were to moderate income borrowers, and 4 percent were to low income borrowers. The modest level of loans to low and moderate income borrowers was not unexpected considering that they make up just 15 percent of the AA. In addition, high real estate values in the AA prevent many borrowers from qualifying for a residential loan on South Padre Island. For example, waterfront lots on the island are selling for \$500 thousand or more, and interior lots are selling for approximately \$250 thousand. The results of our residential loan sample are shown in the table below.

Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of AA Families							
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Residential	4	5	7	5	0	%	89	90

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

Our sample of commercial real estate loans made within the AA indicated a reasonable distribution of loans to small businesses. Of the 20 commercial real estate loans in our sample, 70 percent of the number, and 68 percent of the dollar volume, were made to businesses with revenues less than \$1 million. The following table illustrates the distribution of these loans.

BORROWER DISTRIBUTION OF LOANS TO SMALL BUSINESSES IN AA		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *	72.3	3.6
% of Bank Loans in AA #	70	30
% of Bank Loans in AA \$	68	32

* 24.10 percent of businesses did not report revenue information.
Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans – Not rated

This criterion was not rated. The bank's AA is comprised of only one census tract, which is designated as upper income. A geographic distribution analysis would not be meaningful.

Qualified Investments and CD Services – not rated

SPB chose not to have any qualified investments or CD services reviewed as part of this examination.

Responses to Complaints – not rated

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

Fair Lending Review

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