



Comptroller of the Currency
Administrator of National Banks

Public Disclosure

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Community Reinvestment Act Performance Evaluation

**The Laredo National Bank
Charter Number: 5001**

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NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The Laredo National Bank (LNB)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **March 20, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

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 safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSA's consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract (CT) - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and its disposition (e.g., approved, denied, withdrawn).

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. 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.

Low-Income - Income levels that are less than 50% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Upper-Income - Income levels that are 120% or more of the MFI.

Small Business Loans - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

Small Farm Loans - Loans with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

CRA Rating

Institution’s CRA Rating: This institution is rated “**satisfactory.**”

The major factors which support this rating include:

- ▶ LNB’s good responsiveness to the credit needs of its assessment areas, as reflected in the volume of home mortgage, small business and small farm loan originations within its assessment areas.
- ▶ The good dispersion of LNB’s home mortgage and small business loan originations throughout assessment area geographies, with the most weight given to performance in the Laredo MSA assessment area.
- ▶ LNB’s good record of serving the home mortgage loan needs of low- and moderate-income families and the credit needs of businesses with revenues of less than \$1 million, with the most weight given to performance in the Laredo MSA assessment area.
- ▶ LNB’s adequate responsiveness to the credit and community economic development needs of its assessment areas, with community development investments exceeding \$1 million.
- ▶ A good service delivery system and excellent level of community development services that are responsive to the credit and community development needs of LNB’s assessment areas, with the most weight given to performance in the Laredo MSA assessment area.

The following table indicates the performance level of **The Laredo National Bank** with respect to the lending, investment, and service tests:

Performance Levels	The Laredo National Bank. Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Description of Institution

The Laredo National Bank (LNB) is a mid-sized regional bank based in the south Texas city of Laredo. As of September 30, 1997, LNB reported total assets of \$1.7 billion. LNB is a wholly owned subsidiary of Laredo National Bancshares, Inc. (LNBI), a multi-bank (two) holding company. As of September 30, 1997, LNBI reported total assets of \$1.9 billion. LNB's only affiliate is the other bank subsidiary of the holding company, South Texas National Bank of Laredo (STNB), a community bank also based in Laredo.

In addition to the main office in downtown, LNB has three branches and twelve proprietary automated teller machines (ATMs) in the Laredo metropolitan area. LNB's distribution network outside of Laredo includes branch offices in the metropolitan areas of Houston (one), McAllen (one) and San Antonio (three). The branches in Laredo account for approximately 83% of LNB's total deposits and 85% of total loans. The Houston, McAllen and San Antonio branches account for 8%, 5% and 4% of total deposits, respectively. Total loans are split evenly among these markets at approximately 5% each. As LNB derives the substantial majority of its deposits and loans from the Laredo metropolitan area, performance in this area was weighted most heavily in determining LNB's overall CRA performance. A description of LNB's operations in each area is provided in the "Metropolitan Areas" section of this Evaluation.

The most similarly situated bank to LNB is a locally headquartered mid-sized regional bank (International Bank of Commerce) with total assets of approximately \$3.3 billion. Although the bank is larger than LNB and operates a more extensive branch network throughout South Texas and along the Texas Gulf Coast, the bank is LNB's primary competitor in Laredo and is also a competitor in the other metropolitan areas in which LNB operates.

A large percentage of LNB's deposits and loans are derived from international customers. LNB's primary focus is on serving the needs of these customers, along with the large Hispanic populations in the domestic markets in which it operates. As of September 30, 1997, LNB reported total loans of \$756 million comprising 44% of total assets. The loan portfolio is centered in foreign commercial (28%) and commercial real estate (26%) loans. Retail loans, including loans secured by residential real estate (19%) and consumer loans (9%), have historically been a secondary focus. LNB has, however, become more aggressive in the retail area in an effort to address the needs of the large Hispanic populations in their domestic markets.

There are no legal or financial impediments to LNB's ability to help meet the credit, investment, and service needs of its assessment areas. LNB is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

LNB has delineated four assessment areas. All of the assessment areas are comprised of whole MSAs and include the Laredo, Houston, McAllen-Edinburg-Mission and San Antonio MSAs. Neither the Laredo or McAllen-Edinburg-Mission MSA assessment areas contain low-income census tracts. The Houston and San Antonio MSA assessment areas are very large and include substantial geographies not reasonably served by LNB's branches in those areas. This has the result of skewing aggregate demographic data, by including a large number of geographies not reasonably expected to be served by LNB. This factor was taken into account in the evaluation of

LNB's overall performance under the lending, service and investment tests. A description of each assessment area, including demographic information, is provided in the "Metropolitan Areas" section of this Evaluation.

LNB's CRA performance was last evaluated as of February 16, 1995. At that time LNB's overall level of performance was rated "satisfactory."

Conclusions with Respect to Performance Tests

LENDING TEST

This Performance Evaluation presents information on LNB's home mortgage, small business and small farm loans originated from January 1, 1996 through September 30, 1997. Unless otherwise noted, a reference to loans means these types of loans and not all loans made by the bank (e.g., large commercial business loans and consumer loans). Refer to Appendix A for additional details regarding the scope of this evaluation.

LNB identified errors in small business and small farm loan data previously reported for 1996, just prior to the commencement of this evaluation. LNB subsequently corrected the reporting errors. The accuracy of the updated data was verified during this evaluation, through the review of limited samples. No material errors were identified that would impact the evaluation of the data. The errors in the previously submitted data did affect the accuracy of aggregate market data; however, the errors did not materially impact the evaluation of market share performance.

The following evaluation of LNB's lending performance focuses primarily on home mortgage and small business lending. Limited weight was placed on LNB's small farm lending record, as farm lending is not a primary business line of the bank.

Lending Activity

LNB's lending levels reflect good responsiveness to credit needs in its assessment areas. Since the February 1995 CRA Evaluation, LNB's loans have increased by 45% (\$235 million) while the deposit base has grown by only 10% (\$132 million). This compares favorably to LNB's primary competitor, who reported an 11% (\$113 million) increase in loans while the deposit base grew by 48% (\$1.1 billion).

Since the last evaluation of CRA performance, LNB's loan-to-deposit ratio has averaged 45%. As of September 30, 1997, LNB reported an increased loan-to-deposit ratio of approximately 52%. This compares favorably to its primary competitor at 47%. When adjusted to net out foreign deposits and loans, LNB's loan-to-deposit ratio approaches 100%. The adjusted ratio is similar for all assessment areas, with the exception of the Houston MSA assessment area where the adjusted ratio greatly exceeds 100%.

During the evaluation period, LNB originated 3,314 reportable loans totaling approximately \$305 million. The majority of loan originations during the evaluation period are heavily weighted

towards the Laredo MSA assessment area, with 76% of the total number and 66% of the total dollars originated. This compares to the level of deposits derived from the assessment area at 83%. The distribution of loan originations within the other assessment areas is illustrated in the following table.

Volume of Reportable Loan Originations in 1996 and YTD 1997 by MSA/Assessment Area										
MSA/Assessment Area	Home Mortgage		Small Business		Small Farm		Total Loans		Total Deposits	
	#	%	#	%	#	%	#	%	\$ (000)	%
Laredo MSA	610	79%	1,766	74%	35	97%	2,411	76%	\$1,216,352	83%
McAllen-Edinburg MSA	93	12%	158	7%	0	0%	251	8%	\$109,045	8%
Houston MSA	28	3%	197	8%	0	0%	225	7%	\$75,869	5%
San Antonio MSA	45	6%	254	11%	1	3%	300	9%	\$59,127	4%
Grand Total	776	100%	2,375	100%	36	100%	3,187	100%	\$1,460,393	100%

Source: Small business/small farm loan data collected by the bank, HMDA information and bank prepared deposit report.

Available market share data for 1996 reflects LNB's comparably minimal presence in its metropolitan assessment areas outside of the Laredo MSA. While LNB is a relatively insignificant originator of home purchase and refinance loans, it is a leader in the origination of home improvement loans in the Laredo MSA assessment area. LNB's origination of small business loans in all markets greatly exceeds its performance in the origination of home mortgage loans. LNB's overall market share of small business loan originations is reflective of LNB's primary focus on commercial lending and is a better indicator of overall lending activity. LNB ranks as the leader in the origination of small business loans in the Laredo MSA assessment area.

Volume of Reportable Loan Originations in 1996 Market Share by MSA/Assessment Area									
MSA/Assessment Area	Home Purchase/Refinance			Home Improvement			Small Business		
	#	Overall Market Rank*	Overall Market Share	#	Overall Market Rank*	Overall Market Share	#	Overall Market Rank*	Overall Market Share
Laredo MSA	151	6	5.35%	151	2	25.72%	698	1	35.23%
McAllen-Edinburg MSA	28	34	.51%	18	16	.70%	68	8	1.69%
Houston MSA	9	258	.01%	3	129	.02%	69	22	.22%
San Antonio MSA	8	165	.02%	3	50	.05%	73	17	.70%
Grand Total	196	106	.15%	175	22	.66%	908	14	1.92%

Source: 1996 Aggregate HMDA and 1996 Aggregate CRA Data.

* Rank is based on total # and \$ amount originated.

Assessment Area Concentration

Over the evaluation period, a substantial majority of the number and dollar amount of reportable loans originated by LNB were originated within its assessment areas. The high concentration of small business lending within the assessment areas indicates that, although a substantial portion of loans originated by LNB are to foreign businesses, the substantial majority of these loans are large loans that exceed the \$1 million reporting limitation.

Volume of Reportable Loan Originations in 1996 and YTD 1997						
Product	Total Originations		Within All Assessment Areas			
	Number	\$ (000)	Number	%	\$ (000)	%
Home Purchase	343	\$42,646	318	93%	\$31,725	74%
Refinance	108	\$12,399	106	98%	\$12,201	98%
Home Improvement	344	\$3,708	342	99%	\$3,664	99%
Multifamily	10	\$5,721	10	100%	\$5,721	100%
Total Home Mortgage Loans	805	\$64,474	776	96%	\$53,311	83%
Total Small Business Loans	2,468	\$238,389	2,375	96%	\$217,798	91%
Total Small Farm Loans	41	\$2,327	36	88%	\$1,439	62%
Grand Total	3,314	\$305,190	3,187	96%	\$272,548	89%

Source: HMDA information and small business/small farm loan data collected by the bank.

Geographic Distribution of Loans

Home Mortgage Loans

The geographic distribution of LNB's home mortgage loan originations reflects a good dispersion throughout LNB's assessment areas. As the Laredo MSA assessment area accounts for the majority of LNB's deposits (83%) and loan originations (76%), more weight was given to the distribution within the Laredo MSA. The percentage of home mortgage loans made in low- and moderate-income census tracts represents approximately 20% and 104%, respectively, of the percentage of owner-occupied housing units that are within these tracts. This represents excellent penetration of the moderate-income geographies in LNB's assessment areas. The only two assessment areas with low-income census tracts are the Houston and San Antonio MSA assessment areas. Given LNB's minimal presence in those

markets and the large number of geographies in the assessment areas not reasonably served by LNB's limited service-delivery system, performance in those areas did not materially impact the evaluation of LNB's overall performance.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997										
Within All MSAs/Assessment Areas										
By Income Level of the Census Tracts										
MSA/Assessment Area	Total		Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	Owner-Occ Hsg Units	# of Loans	% of Hsg Units	% of Loans	% of Hsg Units	% of Loans	% of Hsg Units	% of Loans	% of Hsg Units	% of Loans
Laredo MSA	20,902	610	NA	NA	40%	27%	29%	28%	31%	45%
McAllen-Edinburg MSA	72,715	93	NA	NA	24%	17%	49%	29%	27%	54%
Houston MSA	657,415	28	5%	4%	22%	4%	34%	21%	39%	71%
San Antonio MSA	273,136	45	5%	0%	25%	12%	36%	27%	34%	61%
All Assessment Areas	1,024,168	776	4%	<1%	23%	24%	36%	28%	37%	48%

Source: 1990 U.S. Census and HMDA information.

Based on 1996 aggregate HMDA data, LNB's market share of home mortgage loans originated in moderate-income census tracts greatly exceeds its share of the overall market. The moderate share represents 254% of LNB's overall market share, with performance in the Laredo MSA assessment area contributing the majority. Performance in the other metropolitan areas did not materially impact the evaluation of LNB's overall performance, given LNB's limited presence in those markets.

Market Share of Home Mortgage Loan Originations in 1996								
Within All MSAs/Assessment Areas								
By Income Level of the Census Tract								
MSA/Assessment Area	Total Originations		Overall		Low-Income		Mod-Income	
	Number	\$ (000)	Market Rank	Market Share	Market Rank	Market Share	Market Rank	Market Share
Laredo MSA	304	\$12,911	3	8.86%	NA	NA	3	11.69%
McAllen-Edinburg MSA	47	\$3,395	32	.58%	NA	NA	33	.37%
Houston MSA	12	\$1,750	268	.01%	NR	0%	NR	0%
San Antonio MSA	12	\$3,181	167	.03%	NR	0%	124	.04%
Grand Total	375	\$21,237	89	.24%	NR	0%	40	.61%

Source: 1996 Aggregate HMDA Data.

* Rank is based on total number of loans and total \$ amount of loans made by each institution.

Small Business Loans

The geographic distribution of LNB's small business loan originations reflects a good dispersion throughout LNB's assessment areas, with more weight given to performance in the Laredo MSA assessment area. The portion of reported small loans to businesses made by LNB in low- and moderate-income areas is lower than the portion of the businesses located in those areas. The percentage of small loans to businesses with revenues less than \$1 million in low- and moderate-income areas, however, represents 93% of the percentage of businesses with annual revenues of less than \$1 million in those areas (not represented in the table). Performance in the Laredo MSA is higher at 98%. The only two assessment areas with low-income census tracts are the Houston and San Antonio MSA assessment areas. Given LNB's minimal presence in those markets, performance in those areas did not materially impact the evaluation of LNB's overall performance.

Distribution of Small Business Loan Originations in 1996 and YTD 1997 Within All MSAs/Assessment Areas By Income Level of the Census Tracts										
MSA/Assessment Area	Total		Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	# of Businesses	# of Loans	% of Businesses	% of Loans						
Laredo MSA	3,887	1,766	NA	NA	35%	19%	24%	27%	38%	54%
McAllen-Edinburg MSA	8,694	158	NA	NA	25%	18%	35%	26%	40%	56%
Houston MSA	133,598	197	7%	3%	29%	30%	30%	18%	34%	50%
San Antonio MSA	40,688	254	6%	6%	26%	19%	39%	35%	29%	40%
All Assessment Areas	186,867	2,375	7%	1%	28%	20%	32%	27%	33%	52%

Source: Dunn and Bradstreet Business Demographic Data and small business loan data collected by the bank.

Based on 1996 aggregate small business data, LNB's overall share of loans in low-income census tracts is below its share of the overall market. LNB's share of loans in moderate-income census tracts, however, is near its share of the overall market, with performance in the Laredo MSA contributing the

majority. LNB ranks as the number one originator of small business loans in the Laredo MSA assessment area, with more than a third of the overall market and a third of the loans to businesses in moderate-income tracts.

Market Share of Small Business Loan Originations in 1996 Within All MSAs/Assessment Areas By Income Level of the Census Tract								
MSA/Assessment Area	Total Originations		Overall		Low-Income		Mod-Income	
	Number	\$ (000)	Market Rank	Market Share	Market Rank	Market Share	Market Rank	Market Share
Laredo MSA	698	\$42,250	1	35.23%	NA	NA	1	35.01%
McAllen-Edinburg MSA	68	\$6,813	8	1.69%	NA	NA	10	1.62%
Houston MSA	69	\$4,582	22	.22%	25	.13%	21	.25%
San Antonio MSA	73	\$5,443	17	.70%	14	1.24%	18	.35%
Grand Total	908	\$59,088	14	1.92%	22	.44%	15	1.71%

Source: 1996 Aggregate CRA Loan Data.

* Rank is based on total number of loans and total \$ amount of loans made by each institution.

Small Farm Loans

The dispersion of LNB's small farm loan originations reasonably resembles the distribution of census tract characteristics throughout LNB's assessment areas, with almost all of the weight given to performance in the Laredo MSA assessment area. The lack of performance in LNB's other assessment areas did not impact the evaluation of small farm lending, as farm lending is not a primary business line of the bank.

Distribution of Small Farm Loan Originations in 1996 and YTD 1997 Within All MSAs/Assessment Areas By Income Level of the Census Tracts										
MSA/Assessment Area	Total		Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	# of Farms	# of Loans	% of Farms	% of Loans	% of Farms	% of Loans	% of Farms	% of Loans	% of Farms	% of Loans
Laredo MSA	43	35	NA	NA	21%	23%	35%	37%	44%	40%
McAllen-Edinburg MSA	187	0	NA	NA	21%	0%	37%	0%	42%	0%
Houston MSA	1,825	0	3%	0%	24%	0%	36%	0%	36%	0%
San Antonio MSA	694	1	2%	0%	17%	0%	44%	100%	36%	0%
All Assessment Areas	2,749	36	3%	0%	22%	22%	38%	39%	37%	39%

Source: Dunn and Bradstreet Business Demographic Data and small farm data collected by the bank.

Distribution of Borrowers

Home Mortgage Loans

The overall distribution of LNB's home mortgage loan originations reflects a good dispersion among borrowers of different income levels throughout LNB's assessment areas, with more weight given to performance in the Laredo MSA. The overall percentage of home mortgage loans made to low- and moderate-income families represents approximately 22% and 59%, respectively, of the percentage of families that are within these income categories. These percentages, however, are negatively impacted by LNB's poor performance in the San Antonio and Houston MSA assessment areas. Gaps in lending performance in those MSAs are related to the small branch networks centered in the centers of the MSAs versus the very large number of geographies and families located outside of those areas not reasonably served by the networks. These ratios improve for the Laredo MSA, with home mortgage loans made to low- and moderate-income families representing 24% and 100%, respectively of the percentage of families within these income categories. This represents excellent penetration of moderate-income families in the Laredo MSA assessment area. The lower percentage penetration of low-income families is reflective of the lack of affordable housing within the MSA. Refer to the "Metropolitan Areas" section of this Evaluation for additional performance context information. LNB's poor performance in the Houston and San Antonio MSA assessment areas did not materially impact the evaluation of LNB's overall performance, given LNB's limited presence in those markets.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within All MSAs/Assessment Areas By Income Level of the Applicant										
MSA/Assessment Area	Total		Low-Income		Moderate-Income		Middle-Income		Upper-Income	
	# of Families	# of Loans	% of Families	% of Loans	% of Families	% of Loans	% of Families	% of Loans	% of Families	% of Loans
Laredo MSA	29,735	610	25%	6%	17%	17%	17%	25%	42%	53%
McAllen-Edinburg MSA	88,615	93	25%	1%	16%	15%	17%	25%	42%	59%
San Antonio MSA	338,630	45	23%	5%	17%	7%	20%	5%	40%	83%
Houston MSA	843,888	28	23%	0%	17%	6%	20%	22%	40%	72%
All Assessment Areas	1,300,868	776	23%	5%	27%	16%	20%	23%	41%	56%

Source: 1997 HUD Updated MFI and HMDA information.

* The totals do not include 140 loans to borrowers with unknown incomes.

Based on 1996 aggregate HMDA data, LNB's market share of home mortgage loan originations in the Laredo MSA is near its share of the overall market. LNB's market share of home mortgage loans originated to moderate-income families, however, exceeds its share of the overall market. Performance in the other metropolitan areas did not materially impact the evaluation of LNB's overall performance, given LNB's limited presence in those markets.

Market Share of Home Mortgage Loan Originations in 1996 Within All MSAs/Assessment Areas By Income Level of the Applicant								
MSA/Assessment Area	Total Originations		Overall		Low-Income		Mod-Income	
	Number	\$ (000)	Market Rank	Market Share	Market Rank	Market Share	Market Rank	Market Share
Laredo MSA	304	\$12,911	3	8.86%	5	7.22%	3	12.16%
McAllen-Edinburg MSA	47	\$3,395	32	.58%	27	.18%	26	.63%
Houston MSA	12	\$1,750	268	.01%	NR	0%	NR	0%
San Antonio MSA	12	\$3,181	167	.03%	87	.06%	NR	0%
Grand Total	375	\$21,237	89	.24%	113	.11%	77	.26%

Source: 1996 Aggregate HMDA Data.

* Rank is based on total number of loans and total \$ amount of loans made by each institution.

Small Business Loans

The distribution of small loans to businesses originated by LNB reflects good responsiveness to the credit needs of small businesses throughout LNB's assessment areas, with more weight given to performance in the Laredo MSA. Of the number of small loans to businesses, approximately 78% were in amounts of less than \$100 thousand. In addition, approximately 74% of the number of loans originated were to businesses with annual revenues of less than \$1 million. This compares favorably to the distribution of businesses within LNB's assessment areas.

Distribution of Small Business Loan Originations in 1996 and YTD 1997 Within All MSAs/Assessment Areas By Loan Size and Business Revenues						
MSA/Assessment Area	Total Originations		Loan Amt < or = \$100,000		Annual Revenues < \$1 Million	
	Number	\$ (000)	% of Total Number	%of Total Dollars	% of Total Number	%of Total Dollars
Laredo MSA	1,766	\$145,068	81%	34%	75%	61%
McAllen-Edinburg MSA	158	\$19,586	65%	27%	84%	72%
San Antonio MSA	254	\$32,036	69%	19%	61%	38%
Houston MSA	197	\$21,108	76%	26%	81%	64%
All Assessment Areas	2,375	\$217,798	78%	31%	74%	59%

Source: Small business loan data collected by the bank.

Based on 1996 aggregate small business data, the percentage of small loans to businesses originated by LNB in amounts of \$100 thousand or less is 89% of the percentage of loans made by the aggregate market in amounts of \$100 thousand or less. The percentage of loans originated by LNB to businesses with annual revenues of less than \$1 million is 131% of the percentage of loans made by the aggregate market to businesses with revenues of less than \$1 million.

LNB's market share of loans to businesses with revenues of less than \$1 million represents 173% of its overall market share. LNB's performance in the Laredo MSA reflects excellent responsiveness, with a substantial market share of total loans originated in the market to businesses with revenues less than \$1 million and in loan amounts less than \$100 thousand.

Market Share of Small Business Loan Originations in 1996 Within All MSAs/Assessment Areas By Business Size and Loan Amount								
MSA/Assessment Area	Total Originations		Overall		Revenues < or = \$1 million		Loan Amount < or = \$100,000	
	Number	\$ (000)	Market Rank	Market Share	Market Rank	Market Share	Market Rank	Market Share
Laredo MSA	698	\$42,250	1	35.23%	1	41.31%	1	34.75%
McAllen-Edinburg MSA	68	\$6,813	8	1.69%	7	2.39%	10	1.39%
Houston MSA	69	\$4,582	22	.22%	19	.41%	21	.21%
San Antonio MSA	73	\$5,443	17	.70%	14	1.20%	17	.67%
Grand Total	908	\$59,088	14	1.92%	9	3.32%	15	1.81%

Source: 1996 Aggregate Small Business Data.

*Rank is based on total number of loans and total \$ amount of loans made by each institution.

Small Farm Loans

The distribution of small loans to farms originated by LNB reflects a good responsiveness to the credit needs of small farms within LNB's assessment areas, with substantial weight given to performance in the Laredo MSA. Of the number of small loans to farms originated by LNB, approximately 89% were in amounts of less than \$100 thousand. In addition, approximately 97% of the number and dollars

originated were to businesses with annual revenues of less than \$1 million. The lack of performance in LNB’s other assessment areas did not impact the evaluation of small farm lending, as farm lending is not a primary business line of the bank.

Distribution of Small Farm Loan Originations in 1996 and YTD 1997 Within All MSAs/Assessment Areas By Loan Size and Farm Revenues						
MSA/Assessment Area	Total Originations		Loan Amt < or = \$100,000		Annual Revenues < \$1 Million	
	Number	\$ (000)	% of Total Number	% of Total Dollars	% of Total Number	% of Total Dollars
Laredo MSA	35	\$1,399	89%	51%	100%	100%
McAllen-Edinburg MSA	0	0\$	NA	NA	NA	NA
San Antonio MSA	1	\$40	100%	100%	0%	0%
Houston MSA	0	0\$	NA	NA	NA	NA
All Assessment Areas	36	\$1,439	89%	53%	97%	97%

Source: Small farm loan data collected by the bank.

Community Development Loans

LNB’s community development lending activity is limited. During the evaluation period, LNB made two community development loans totaling \$290 thousand. One loan was funded in the Laredo MSA assessment area for \$15 thousand in 1995 and the other loan was funded in the McAllen-Edinburg-Mission MSA assessment area for \$275 thousand in 1996. While numerous community development lending opportunities exist in the San Antonio and Houston MSA assessment areas, LNB has not funded any community development loans in either of these assessment areas. Neither of these assessment areas are major markets for LNB, as reflected by the low volume of deposits attributable to both of these markets. Positive consideration is given to the fact that a portion of LNB’s loan originations, reported and considered as home mortgage or small business loans, have community development characteristics.

Product Innovation and Flexibility

LNB uses flexible underwriting guidelines to meet the credit needs of individuals within its assessment areas. Some of the products were considered innovative. The majority of flexible loan products are concentrated in the Laredo MSA. The loan programs are geared towards increasing the volume of home mortgage loans to low- and moderate-income individuals and small business loans. Refer to the “Metropolitan Areas” section of this Evaluation for details regarding flexible loan products by assessment area.

INVESTMENT TEST

LNB has an adequate overall level of community development investments and grants, with 1% of adjusted capital levels being attributed to community development initiatives; however, the level of investment and grants in each assessment area is not consistent with LNB's distribution of its deposit base. Based on investments and grants made from February 1995 through December 1997, 98% provided direct benefit to the Laredo MSA, 1% to the McAllen-Edinburg-Mission MSA, .7% to the San Antonio MSA and .4% to the Houston MSA assessment area. This compares to the distribution of the deposit base at 83%, 5%, 4% and 8%, respectively.

LNB's community development investments are limited to the purchase of a low-income housing tax credit (LIHTC) and various grants and donations. LNB purchased 49% of the Azteca Development LIHTC for a total investment of \$917 thousand. The LIHTC facilitated the completion of a 50 unit housing complex for low-income families in the Laredo MSA. While the investment is not considered innovative, it is considered highly complex for the Laredo market. Over the evaluation period, LNB made approximately 53 community development grants and donations totaling \$146 thousand. Refer to the "Metropolitan Areas" section of this Evaluation for details regarding community development investments by assessment area.

Information provided through contacts with local community leaders in each of LNB's assessment areas indicates that varying degrees of opportunities exist to invest in community development projects. These opportunities include low-and moderate-income multifamily housing projects and single family residential ownership programs. Refer to the "Metropolitan Areas" section of this Evaluation for additional performance context information.

SERVICE TEST

Retail Banking Services

The availability and effectiveness of LNB's overall service-delivery system is good. In general, full service branches are reasonably distributed throughout LNB's assessment areas. The overall accessibility of LNB's service-delivery system in the Houston and San Antonio MSA assessment areas is hampered by the limited branch networks in these areas versus the very large geographic areas that comprise the related assessment areas. As a result, LNB's branches in those areas are accessible to only limited portions of the assessment areas. Overall accessibility in the San Antonio MSA assessment area has improved with the opening of two new branches since the last evaluation, including one branch in a low-income tract. The other branch was located in a middle-income tract. A new branch was also opened in the Laredo MSA assessment area in an upper-income tract. A new branch has received regulatory approval and is currently under construction in a moderate-income tract in the Laredo MSA

assessment area, in response to the community’s request for this need. This is expected to enhance overall delivery systems to low- and moderate-income persons and geographies in the Laredo MSA. No branches have been closed, since the last evaluation.

Distribution of the Delivery System Within All MSAs/Assessment Areas By Income Level of the Census Tracts								
Community Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	99	10%	309	30%	339	33%	274	27%
Type of Service	#	%	#	%	#	%	#	%
Full Service Offices	1	11%	3	33%	2	22%	3	33%
ATMs-At Bank Offices	0	0%	2	33%	1	17%	3	9%
ATMs-At Nonbank Locations	0	0%	3	30%	2	20%	5	50%
Total LNB Locations	1	4%	8	32%	5	20%	11	44%

Source: Internal bank records.

Overall accessibility is enhanced by alternative delivery systems available to customers throughout LNB’s assessment areas. They include six proprietary ATM locations at branch locations and ten proprietary ATM locations at nonbank locations. The majority of ATMs at nonbank locations (eight) are in the Laredo MSA assessment area. Two of these are located in moderate-income tracts and were placed there in an effort to serve the needs of the primarily low- and moderate-income residents residing in those areas. LNB also offers toll-free telephone banking, consumer loan applications by phone and mail, and personal and commercial banking by computer.

Standard bank services are offered by LNB at all offices and there is no variance among assessment areas. Other services and products offered by the bank include foreign currency exchange, retail nondeposit investment products and several credit cards under agency agreements. All locations, including the telephone/computer banking areas, offer services in Spanish.

Community Development Services

On an overall basis, LNB provides an excellent level of community development services that benefit its assessment areas. Again, the community development services are concentrated in the Laredo MSA, LNB’s primary market. In the Laredo MSA, LNB is a leader in providing technical assistance and financial expertise in securing grants, donations, and other assistance for nonprofit organizations that serve LMI individuals, families and geographies. LNB is also active in the McAllen-Edinburg-Mission MSA, however, to a lesser extent. Refer to the “Metropolitan Areas” section of this Evaluation for additional information regarding community development services by assessment area.

LNB also offers several low-cost checking accounts in an effort to reach the significant unbanked low- and moderate-income population in its assessment areas. The accounts include the following:

Basic Account - Requires a minimum opening deposit of \$200 and eight or fewer checks written against the account to qualify for the \$2 monthly fee.

LNB Direct Checking - Requires \$100 to open, direct deposit and a \$100 minimum daily balance to avoid a low monthly fee. An annual supply of up to 400 personalized checks at no cost, travelers checks with no issue fees and discounts on other bank services are available with this account.

Graduate Account - Offers no monthly service charges for four years from the year of high school graduation with a minimum initial deposit of \$200.

50 Grand Account - Offered to persons of age 50 or over, with a minimum \$200 opening deposit. If at least a \$100 daily balance is maintained, the \$7 monthly fee is avoided. This account also offers an annual supply of up to 200 checks at no cost and no per check charges, travelers checks with no issue fees, free mailers and deposit slips for bank-by-mail and monthly interest on accounts with a minimum daily balance of \$1,500 or more.

All of the community development services discussed above are responsive to credit and community development needs in LNB's assessment areas. None, however, are considered innovative.

Fair Lending Review

No violations of the substantive provisions of antidiscrimination laws and regulations were identified during a concurrent fair lending examination of LNB. The examination included a comparative file review of home improvement loan originations focusing on terms, conditions and rates. The prohibited basis group was females. LNB has established policies, procedures and training programs to ensure compliance with antidiscrimination laws and regulations.

Metropolitan Areas

Description of Institution's Operations in the Houston MSA

LNB has defined the entire Houston MSA as its assessment area for offices located in the Houston metropolitan area. LNB operates one full-service branch and one proprietary ATM within the Houston MSA. Both are located in the upscale Galleria shopping center and cater primarily to LNB's international customers from Mexico. The Houston MSA assessment area is very large and includes substantial geographies not reasonably served by LNB's branch.

Deposits originating from the Houston MSA represent 8% of LNB's total deposits. A significant percentage of these deposits are foreign. In terms of market share (as of June 30, 1997), LNB holds less than 1% (\$99 million) of bank deposits in the MSA. Local banking competition is aggressive and includes affiliates of large national banking companies, mid-size community banks, numerous small community banks, credit unions and non-bank financial service providers.

Description of the Houston MSA

The Houston MSA is composed of the counties of Chambers, Fort Bend, Harris, Liberty, Montgomery and Waller, and includes 697 census tracts. Sixteen of the tracts, representing about 3% of the total number of tracts, are not classified by income category and are excluded from the following table. The following table provides basic demographic information based on the income level of the census tracts and families within the Houston MSA.

Demographic Information Houston MSA Assessment Area										
Income Category	By Income Level of the Census Tract								Families by Income Level	
	Census Tracts		Population		Businesses		Owner Occupied Housing			
	#	%	#	%	#	%	#	%	#	%
Low	77	11%	264,128	8%	9,656	7%	31,877	5%	189,913	23%
Moderate	204	30%	914,833	28%	39,050	29%	145,219	22%	140,440	17%
Middle	216	32%	1,122,735	34%	39,791	30%	224,956	34%	172,454	20%
Upper	184	27%	1,020,266	31%	44,761	34%	255,353	39%	341,058	40%
Totals	681	100%	3,321,962	100%	133,598	100%	657,405	100%	843,888	100%
Median Family Income = \$36,886					Median Housing Value = \$74,444					
HUD Adjusted Median Family Income for 1997 = \$49,100					Median Year Built = 1971					

Source: 1990 U.S. Census and 1997 HUD updated MFI.

The Houston economy is healthy and growing. Predominant industries include aerospace engineering, oil exploration and refining and electronics. Houston is a world leader in the energy sector and has one of the nation's largest ports. In addition, it has an internationally recognized medical center and is headquarters to NASA. Major employers include NASA, the Houston medical center, energy and chemical companies, Compaq Computer and Brown and Root. Unemployment is in line with state and national averages.

A review of community contacts conducted within the Houston MSA and local government initiatives indicates a number of opportunities to participate in community development lending, investments and service activities. The contacts identified the primary credit needs of the MSA as loans for affordable housing, affordable home improvement, revitalization of low-income areas and small business. Overall, community development opportunities in the Houston MSA are characterized as high.

Conclusions about Performance Tests in the Houston MSA

LNB's performance under the investment and service tests in the Houston MSA is not consistent with its overall performance. In general, performance under each test in the MSA is below LNB's overall performance. The lack of performance is partly attributed to LNB's comparatively insignificant presence in a very large market dominated by affiliates of large national banking companies. As LNB derives only a small portion of its deposits (8%) from the Houston MSA, the impact of LNB's performance in the MSA on the bank's overall rating was weighted proportionately.

LENDING TEST

Lending Activity

LNB's lending levels reflect an improved responsiveness to credit needs in the Houston MSA. During the evaluation period, LNB's loans in the MSA increased by 700% while deposits grew by a more modest 82%. As of September 30, 1997, LNB reported a loan-to-deposit ratio of 37% for the Houston MSA. This compares favorably to a ratio of only 8% reported on March 31, 1995. When the current ratio is adjusted to net out significant foreign loans and deposits, the loan-to-deposit ratio exceeds 100%.

In the following analysis of lending in the Houston MSA, more weight was given to the distribution of small business loans than to home mortgage loans. This approach was used, as small business loan originations comprise 88% of the total number of reportable originations in the Houston MSA over the evaluation period.

Geographic Distribution of Loans within the Houston MSA

Home Mortgage Loans

The geographic distribution of LNB's home mortgage loan originations reflects poor penetration throughout the Houston MSA. LNB has penetrated only a small portion of the census tracts in the MSA. Some of these gaps can be explained by the location of LNB's singular branch just southwest of downtown Houston versus the very large number of geographies located outside of this area not

reasonably served by the branch. While the percentage of home mortgage loans made in low-income and moderate-income census tracts represents 80% and 41%, respectively, of the percentage of owner-occupied housing units that are within these tracts, the penetration represents only two loans.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within the Houston MSA By Income Level of the Census Tracts								
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	77	11%	204	30%	216	32%	184	27%
Census Tracts Penetrated (% of tracts in income group)	1	1%	1	<1%	6	3%	15	8%
Owner-Occupied Hsg Units	31,877	5%	145,219	22%	224,956	34%	255,353	39%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	0	0%	1	5%	4	20%	15	75%
Refinance	0	0%	0	0%	0	0%	2	100%
Home Improvement	1	20%	0	0%	2	40%	2	40%
Multi-family	0	0%	0	0%	0	0%	1	100%
Grand Total	1	4%	1	4%	6	21%	20	71%

Source: 1990 U.S. Census and HMDA information.

A market share analysis of home mortgage loan originations in the Houston MSA is not meaningful. Based on 1996 aggregate HMDA data, LNB ranks 258th with only .01% of total home mortgage originations in the Houston MSA.

Small Business Loans

The geographic distribution of LNB's small business loan originations reflects a good penetration throughout the Houston MSA. The portion of reported small loans to businesses made by LNB in low- and moderate-income areas is generally equal to the portion of the market's businesses in those areas.

The percentage of LNB's reported small loans to businesses with annual revenues less than \$1 million located in low- and moderate-income areas reflects a similar penetration, with those loans representing 94% of the percentage of businesses with annual revenues less than \$1 million in those areas.

Distribution of Small Business Loan Originations in 1996 and YTD 1997									
Within the Houston MSA									
By Income Level of the Census Tracts									
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income		
Census Tracts	77	11%	204	29%	216	31%	184	26%	
Census Tracts Penetrated (% of tracts in income group)	3	4%	14	7%	14	6%	33	18%	
Number of Businesses	9,656	7%	39,050	29%	39,791	30%	44,761	34%	
Loan Product	#/\$	%	#/\$	%	#/\$	%	#/\$	%	
Small Business	#	5	3%	59	30%	35	18%	98	50%
	\$	\$361	2%	\$6,196	29%	\$4,744	22%	\$9,807	46%

Source: Dunn and Bradstreet Business Demographic Data and small business data collected by the bank.

A market share analysis of small business loan originations in the Houston MSA is not meaningful. Based on 1996 aggregate small business data, LNB ranks 22nd with only .22% of small business loan originations in the Houston MSA.

Small Farm Loans

LNB did not originate any small farm loans in the Houston MSA. The metropolitan nature of the Houston MSA, the location of LNB's branch and LNB's primary focus on business lending, mitigate the lack of this type of lending in the MSA.

Distribution of Borrowers within the Houston MSA

Home Mortgage Loans

The distribution of LNB's home mortgage loan originations reflects a very poor penetration among borrowers of different income levels in the Houston MSA. Some of these gaps can be explained by LNB's singular branch location just southwest of downtown Houston versus the very large number of families located outside of the area not reasonably served by the branch. No home mortgage loans were made to low-income families, with only one loan to a moderate-income family.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within the Houston MSA By Income Level of the Borrower								
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	189,913	23%	140,440	17%	172,454	20%	341,058	40%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	0	0%	0	0%	3	23%	10	77%
Refinance	0	0%	0	0%	0	0%	0	0%
Home Improvement	0	0%	1	20%	1	20%	3	60%
Grand Total*	0	0%	1	6%	4	22%	13	72%

Source: 1990 U.S. Census and HMDA information.

* The totals do not include 8 loans to borrowers with unknown incomes.

Small Business Loans

The distribution of small loans to business originated by LNB reflects an adequate responsiveness to the credit needs of small businesses within the Houston MSA. Of the number of small loans to businesses originated by LNB, approximately 76% were in amounts of less than \$100 thousand. In addition,

approximately 88% of the number and 87% of the dollar amount of loans originated by LNB were to businesses with annual revenues of less than \$1 million. This compares favorably to the distribution of businesses within the MSA.

Distribution of Small Business Loan Originations in 1996 and YTD 1997 Within the Houston MSA By Loan Size and Business Revenues								
Loan Size					Annual Revenues < \$1 Million			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	149	76%	\$5,516	6%	132	88%	\$4,788	87%
\$100,000 to \$250,000	30	15%	\$5,493	26%	20	67%	\$3,724	68%
\$250,000 to \$1,000,000	18	9%	\$10,104	48%	8	44%	\$5,082	50%
Totals	197	100%	\$21,113	100%	160	81%	\$13,594	64%
Distribution of Businesses in the MSA by Annual Revenues of the Business:				< 1 Million	70%	*As a percentage of loans of the size category		
				> 1 Million	11%			
				Unknown	19%			

Source: Dun & Bradstreet Business Demographic Data and small business data collected by the bank.

Community Development Loans

LNB has not funded any community development loans in the Houston MSA. LNB's comparatively minor presence in the market and competition for such loans from the larger banks that dominate the market contribute to LNB's lack of performance in this area. The Houston MSA has a high level of opportunities available for community development lending. Positive consideration is given to the fact that a portion of LNB's loan originations, reported and considered as home mortgage or small business loans, have community development characteristics.

INVESTMENT TEST

LNB's community development investments in the Houston MSA reflects a very poor responsiveness to the community development needs of the MSA. Investments in the MSA are limited to four grants totaling \$4,000. Contributions, in similar amounts, were made to the Tejano Center for Community Concern, the Association for Advancement of Mexican Americans, Housing Opportunities of Houston and Houston Esperanza. Even with a minimal presence in the market, LNB's participation in local programs is not commensurate with its deposit share position. Opportunities for investment in the MSA are considered high.

SERVICE TEST

Retail Banking Services

The availability and effectiveness of LNB's service delivery systems in the Houston MSA are poor. LNB's branch and ATM are inaccessible to significant portions of the Houston MSA because of their location. LNB's only branch and ATM are located in the upscale Galleria shopping mall in a moderate-income census tract just west of the central business district of the City of Houston. Due to the high traffic nature of the mall, the location and effective customer base are considered to be unrelated to the surrounding census tracts. The inaccessibility of LNB's delivery system in the Houston MSA has impacted LNB's ability to reach the large low- and moderate-income population of the MSA. No branches have been opened or closed in the MSA in the last two years.

Products and services offered in the Houston MSA reflect those offered by the overall bank. The branch's lobby hours are consistent with those of the mall in which it is located.

Community Development Services

No community development services are provided by LNB in the Houston MSA. Significant opportunities exist to provide such services.

Metropolitan Areas

Description of Institution's Operations in the Laredo MSA

LNB has defined the entire Laredo MSA as its assessment area for offices located in the Laredo metropolitan area. LNB operates its main office and three full-service branches in the Laredo MSA. LNB also has a network of twelve proprietary ATMs.

Deposits attributable to the Laredo MSA represent 84% of LNB's total deposits. In terms of market share (as of June 30, 1997), LNB holds approximately 43% (\$1.1 billion) of bank deposits in the MSA, placing them first among banks in the MSA. Local banking competition is aggressive, however, the main competition is provided by another Laredo based mid-size regional bank (International Bank of Commerce) which holds approximately 34% of bank deposits in the MSA.

Description of the Laredo MSA

The Laredo MSA is comprised of Webb County and is located in south Texas along the Texas-Mexico border, approximately 160 miles south of the San Antonio metropolitan area. According to 1990 U.S. Census data, the MSA has a total population of 133,239. Approximately 94% of the population is Hispanic. The following table provides basic demographic information based on the income level of the census tracts and families within the Laredo MSA. None of the census tracts in the MSA are defined as low-income.

Demographic Information Laredo MSA Assessment Area										
Income Category	By Income Level of the Census Tract								Families by Income Level	
	Census Tracts		Population		Businesses		Owner Occupied Housing			
	#	%	#	%	#	%	#	%	#	%
Low	0	0%	0	0%	0	0%	0	0%	7,324	25%
Moderate	11	46%	57,234	43%	1,487	38%	8,293	40%	4,955	17%
Middle	8	33%	37,241	28%	935	24%	6,064	29%	4,919	17%
Upper	5	21%	38,674	29%	1,465	38%	6,546	31%	12,539	42%
Totals	24	100%	133,239	100%	3,887	100%	20,903	100%	29,735	100%
Median Family Income = \$19,527					Median Housing Value = \$50,751					
HUD Adjusted Median Family Income for 1997 = \$27,300					Median Year Built = 1970					

Source: 1990 U.S. Census and HUD 1997 updated MFI.

U.S. Highway 59 runs from east to west, effectively dividing the Laredo MSA in half. The moderate-income tracts are concentrated in the west-central portion of the City of Laredo, south of Highway 59, and a large portion of southern Webb County. Middle-income tracts are concentrated in the east-central and southern portion of the City, south of Highway 59, and a large portion of northern Webb County. Upper Income tracts are concentrated in the northern portion of the City, north of Highway 59.

The Department of Housing and Urban Development's (HUD's) 1997 updated MFI for the Laredo MSA is \$27,300. This is the income level used to determine the income level of families within the Laredo MSA. This compares to HUD's 1997 updated MFI for all MSAs in the State of Texas of \$44,775 and provides some insight into the comparatively poor population in the Laredo MSA. The assessment area has a high level of persons living below the poverty level at 34%. This compares to the average for all MSAs in the State of Texas at only 15%. A low-income family in the Laredo MSA has an income of less than \$13,650. It is noted that although 25% of the families in the Laredo MSA are defined as low-income, no census tracts are defined as low-income. A substantial 54% of low-income families reside in moderate- and 30% in middle-income census tracts. This distribution could distort the analysis of the geographic distribution of LNB's loan originations by census tracts.

While the MFI is comparatively low, the median housing value in the Laredo MSA is high at \$50,751. There exists a definite mismatch between the financial ability of the residents of the Laredo MSA to purchase a home and the cost of a home. The high housing costs are attributed to high land costs resulting from the control of the supply of land for development by a handful of investors. The high cost of housing coupled with the low MFI increases the difficulty of making home mortgage loans to low- and moderate-income families in the Laredo MSA.

The economic conditions in Laredo have improved over the past two years and are once again considered to be healthy. Unemployment levels, however, remain above the Texas and national averages. The retail and service sectors account for the majority of the employers in Laredo. Transportation and communication businesses also play a major role. The economy of Laredo is highly dependent on events that occur in Mexico. All of the above industries are impacted whenever the Mexican economy enters a declining period.

Community contacts conducted by our office, as well as those conducted by other federal banking regulators, included meetings with a community development agency, a neighborhood housing service provider, a homebuilder's association and a Realtor's association. In speaking with the contacts, affordable housing and the high cost of an entry level home were identified as the most common problems in Laredo MSA. The MSA does have initiatives in place in an attempt to provide affordable housing and to rehabilitate declining areas of the City of Laredo. Overall, community development opportunities in the Laredo MSA are characterized as moderate.

Conclusions about Performance Tests in the Laredo MSA

LNB's performance under the lending, investment and service tests in the Laredo MSA is consistent with its overall performance. As LNB derives the substantial majority of its deposits (83%) from the Laredo MSA, the impact of LNB's performance in the MSA on the bank's overall rating was weighted the heaviest of the four metropolitan areas evaluated.

LENDING TEST

Lending Activity

LNB's lending levels reflect excellent responsiveness to credit needs in Laredo MSA. During the evaluation period, LNB's loans in the MSA grew by 36%, while deposits grew by a more modest 4%. As of September 30, 1997, LNB reported a loan-to-deposit ratio of 53% for the Laredo MSA. When the ratio is adjusted to net out significant foreign loans and deposits, the ratio approaches 100%.

Geographic Distribution of Loans within the Laredo MSA

Home Mortgage Loans

The geographic distribution of LNB's home mortgage loan originations reflects a good penetration throughout the MSA. The one moderate-income census tract that was not penetrated consists primarily of the Laredo Airport. The percentage of home mortgage loans made in moderate-income census tracts represents 68% of the percentage of owner-occupied housing units that are within these tracts. LNB's overall percentage of loans in moderate-income tracts at 27% is equal to the percentage of loans in moderate-income tracts made by all other lenders in the MSA. The percentage for both home purchase and home improvement loans are similar.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within the Laredo MSA By Income Level of the Census Tracts								
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	0	0%	11	46%	8	33%	5	21%
Census Tracts Penetrated (% of tracts in income group)	NA	NA	10	91%	8	100%	5	100%
Owner-Occupied Hsg Units	NA	NA	8,293	40%	6,064	29%	6,546	31%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	NA	NA	67	31%	46	21%	105	48%
Refinance	NA	NA	13	14%	22	24%	57	62%
Home Improvement	NA	NA	84	28%	105	36%	106	36%
Multi-family	NA	NA	1	20%	0	0%	4	80%
Grand Total	NA	NA	165	27%	173	29%	272	45%

Source: 1990 U.S. Census and bank HMDA Loan Application Registers

Based on 1996 aggregate HMDA data, LNB's market share of home mortgage loans originated in

moderate-income census tracts greatly exceeds its share of the overall market. The moderate share represents 132% of LNB's overall market share. LNB is the largest bank originator of home mortgage loans in moderate-income census tracts in the Laredo MSA and reports more than three times the number of originations reported by its most comparable competitor.

Market Share of Home Mortgage Loan Originations in 1996 Within the Laredo MSA By Income Level of the Census Tract								
Loan Product	Total Originations		Overall		Low-Income		Mod-Income	
	Number	\$ (000)	Market Rank	Market Share	Market Rank	Market Share	Market Rank	Market Share
Home Purchase	119	\$9,174	6	4.97%	NA	NA	3	8.32%
Refinance	32	\$1,980	2	7.46%	NA	NA	3	8.57%
Home Improvement	151	\$1,087	2	25.72%	NA	NA	2	23.90%
Multifamily	2	\$670	4	10.53%	NA	NA	0	0%
Grand Total	304	\$12,911	3	8.86%	NA	NA	3	11.69%

Source: 1996 Aggregate HMDA Data.

* Rank is based on total number of loans and total \$ amount of loans made by each institution.

Small Business Loans

The geographic distribution of LNB's small business loan originations 1996 reflects a good penetration throughout the Laredo MSA. The portion of reported small loans to businesses made by LNB in moderate-income areas is lower than the portion of the market's businesses in those areas. The percentage of small loans to businesses with revenues less than \$1 million in moderate income areas, however, is 121% of the percentage of businesses with annual revenues less than \$1 million in those areas (not represented in the table).

Distribution of Small Business Loan Originations in 1996 and YTD 1997 Within the Laredo MSA By Income Level of the Census Tracts									
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income		
Census Tracts	0	0%	11	46%	8	33%	5	21%	
Census Tracts Penetrated (% of tracts in income group)	NA	NA	11	100%	8	100%	5	100%	
Number of Businesses	NA	NA	1,487	38%	935	24%	1,465	38%	
Loan Product	#/\$	%	#/\$	%	#/\$	%	#/\$	%	
Small Business	#	NA	NA	337	19%	476	27%	953	54%
	\$	NA	NA	\$21,972	15%	\$47,683	33%	\$75,413	52%

Source: Dunn and Bradstreet Business Demographic Data and small business data collected by the bank.

Based on 1996 aggregate small business data, LNB ranks as the number one originator of small loans to businesses in the Laredo MSA with more than a third of the market. LNB's share of loans in moderate-

income census tracts is near its share of the overall market. Refer to the “Lending Test” section at the front of this Evaluation discussing LNB’s overall performance, for presentation of this information in table format.

Small Farm Loans

The geographic distribution of LNB’s small farm loan originations in 1996 and YTD 1997 reflects a good penetration throughout the Laredo MSA. The portion of reported small loans to farms made by LNB in moderate-income census tracts exceeds the portion of the market’s farms in those areas.

Distribution of Small Farm Loan Originations in 1996 and YTD 1997 Within the Laredo MSA By Income Level of the Census Tracts									
Census Tract Data		Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts		0	0%	11	46%	8	33%	5	21%
Census Tracts Penetrated (% of tracts in income group)		NA	NA						
Number of Farms		NA	NA	9	21%	15	35%	19	44%
Loan Product		#\$	%	#\$	%	#\$	%	#\$	%
Small Farm	#	NA	NA	8	23%	13	37%	14	40%
	\$	NA	NA	\$171	12%	\$974	70%	\$254	18%

Source: Dunn and Bradstreet Business Demographic Data and small farm data collected by the bank.

Distribution of Borrowers within the Laredo MSA

Home Mortgage Loans

The distribution of LNB’s home mortgage loan originations reflects a good penetration among borrowers of different income levels in the Laredo MSA. The percentage of home mortgage loans made to low- and moderate-income families represents 24% and 100%, respectively, of the percentage of families that are within these income categories. Performance in these areas is centered in home

improvement loans. The lower penetration of low-income families is reflective of the lack of affordable housing in the MSA. Refer to the “Description of the Assessment Area” for additional performance context information.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within the Laredo MSA By Income Level of the Borrower								
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	7,324	25%	4,955	17%	4,919	17%	12,539	42%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	2	1%	31	17%	41	22%	111	60%
Refinance	1	2%	4	9%	8	17%	34	72%
Home Improvement	24	9%	48	19%	72	28%	113	44%
Grand Total	27	6%	83	17%	121	25%	258	53%

Source: 1990 U.S. Census and HMDA information.

* The totals do not include 140 loans to borrowers with unknown incomes.

Based on 1996 aggregate HMDA data, LNB’s market share of home mortgage loans originated to low-income families is near its share of the overall market. LNB’s market share of home mortgage loans originated to moderate-income families, however, exceeds its share of the overall market.

Market Share of Home Mortgage Loan Originations in 1996 Within the Laredo MSA By Income Level of the Borrower								
Loan Product	Total Originations		Overall		Low-Income		Mod-Income	
	Number	\$ (000)	Market Rank	Market Share	Market Rank	Market Share	Market Rank	Market Share
Home Purchase	119	\$9,174	6	4.97%	NR	0%	4	6.98%
Refinance	32	\$1,980	2	7.46%	NR	0%	2	30.00%
Home Improvement	151	\$1,087	2	25.72%	2	14.29%	2	27.17%
Grand Total	302	\$12,241	3	8.86%	5	7.22%	3	12.16%

Source: 1996 Aggregate HMDA Data.

* Rank is based on total number of loans and total \$ amount of loans made by each institution.

Small Business

The distribution of small loans to businesses originated by LNB reflects a good responsiveness to the credit needs of small businesses within the Laredo MSA. Of the number of small loans to businesses originated by LNB, approximately 81% were in amounts of less than \$100 thousand. In addition, approximately 75% of the number and 61% of the dollars originated were to businesses with annual revenues of less than \$1 million. This compares favorably to the distribution of businesses within the MSA.

Distribution of Small Business Loan Originations in 1996 and YTD 1997 Within the Laredo MSA By Loan Size and Business Revenues								
Loan Size					Annual Revenues < \$1 Million			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	1,437	81%	\$49,689	34%	1,112	77%	\$36,085	73%
\$100,000 to \$250,000	205	12%	\$32,397	22%	138	67%	\$21,527	66%
\$250,000 to \$1,000,000	124	7%	\$62,982	44%	66	53%	\$30,557	49%
Totals	1,766	100%	\$145,068	100%	1,316	75%	\$88,169	61%
Distribution of Businesses in the MSA by Annual Revenues of the Business:				< 1 Million	65%	*As a percentage of loans of the size category		
				> 1 Million	12%			
				Unknown	23%			

Source: Dun & Bradstreet Business Demographic Data and small business data collected by the bank.

Based on 1996 aggregate small business data, the percentage of small loans to businesses originated by LNB in amounts of \$100 thousand or less is 92% of the percentage of loans made by the aggregate market in amounts of \$100 thousand or less. The percentage of loans originated by LNB to businesses with annual revenues of less than \$1 million is 88% of the percentage of loans made by the aggregate market to businesses with revenues of less than \$1 million. LNB's market share of loans to businesses with revenues less than \$1 million (41%) represents 117% of its overall market share. Refer to the "Lending Test" section at the front of this Evaluation discussing LNB's overall performance, for presentation of this information in table format.

Small Farm Loans

The distribution of small loans to farms originated by LNB reflects excellent responsiveness to the credit needs of small farms within the Laredo MSA. Of the number of small loans to businesses originated by LNB, approximately 88% were in amounts of less than \$100 thousand. In addition, approximately 100% of the number and dollars originated were to businesses with annual revenues of less than \$1 million. This compares favorably to the distribution of farms within the MSA.

Distribution of Small Farm Loan Originations in 1996 and YTD 1997 Within the Laredo MSA By Loan Size and Business Revenues												
Loan Size					Annual Revenues < \$1 Million							
	#	%	\$ (000)	%	#	%*	\$ (000)	%*				
less than \$100,000	31	88%	\$718	51%	31	100%	\$718	100%				
\$100,000 to \$250,000	3	9%	\$331	24%	3	100%	\$331	100%				
\$250,000 to \$500,000	1	3%	\$350	25%	1	100%	\$350	100%				
Totals	35	100%	\$1,399	100%	35	100%	\$1,399	100%				
Distribution of Farms in the MSA by Annual Revenues of the Farm:					*As a percentage of loans of the size category							
< 1 Million									86%			
> 1 Million									9%			
Unknown					5%							

Source: Dun & Bradstreet Business Demographic Data and small farm data collected by the bank.

Community Development Loans

LNB's level of community development lending in the Laredo MSA is limited. LNB has originated one community development loan in the Laredo MSA. The loan was funded in 1995 for \$15 thousand. This total represents 5% of the total dollar volume of community development lending by LNB and is insignificant in relation to the size of the bank's presence in this market. The purpose of the loan was to fund the non-profit borrower's business of providing home buyer education, low interest rate home purchase and home improvement loans, grants, construction assistance, and post purchase counseling to low- and moderate-income families. Opportunities for community development lending in the MSA are characterized as moderate.

Product Innovation and Flexibility

LNB uses flexible underwriting guidelines to meet the credit needs of individuals in the Laredo MSA. None of the products, however, are considered innovative. The flexible loan programs are geared towards increasing the volume of loans originated to low- and moderate-income individuals. LNB often

leverages its loan programs with funds from the Federal Home Loan Bank of Dallas to maximize home ownership opportunities for low- and moderate-income families and individuals. Any loans originated under the programs have already been considered in the evaluation of home mortgage lending under the Lending Test. Examples of loan products with flexible loan underwriting criteria include:

City Affordable Housing Loan Program - The City Affordable Housing Loan Program is a coordinated effort between the City of Laredo, who provides housing units, the Laredo-Webb NHS, who provides down payment and closing cost assistance, and LNB, who provides the permanent financing for the properties. Underwriting requirements for loans included in this program allow for reduced fees charged by the bank and grant funds to meet down payment requirements. LNB committed to fund \$2.6 million during 1995 and 1996 resulting in 73 loans being made totaling that amount. LNB also committed to fund \$2 million in 1997, however, no loans had been funded at the time of this evaluation.

Special NHS Program - This program is a coordinated effort between the Laredo-Webb NHS and LNB. The program targets low- and moderate-income and disabled individuals for home purchase financing. Underwriting criteria allows for down payment funds to come from sources other than the purchaser. LNB funded 7 home loans totaling \$256 thousand in 1996. LNB committed to fund \$258 thousand for 7 homes in 1997, however, no loans had been funded at the time of this evaluation.

Los Presidentes Lot Program - The Los Presidentes and Los Americas lot program is targeted at low- and moderate-income individuals living in these developments who wish to gain title to their properties. The lots are currently financed under a “contract for deed” with the developer. Underwriting criteria included an interest rate below the “contract for deed” rate, no cost property valuations, no credit report or income verification if the payment history on the contract was good, and waiver of all origination and underwriting fees. This program was offered to all residents of the development in May 1996, however, no loans had been originated at the time of this evaluation.

\$1,000 Down, In-House Fixed Rate Mortgage Pilot Program - This program is targeted at contractors building homes for families and individuals at 100% or less of the MFI income for the Laredo MSA. Underwriting requirements in this loan program include a 5% down payment, where \$1,000 must come from the individual and the remainder may come from other sources, no private mortgage insurance and expanded debt/income ratios. LNB introduced this program in June 1996 with an initial commitment of \$2 million, however, no loans had been originated at the time of this evaluation.

Concord Hills Affordable Housing Program - The Concord Hills Affordable Housing Program is a coordinated effort between the City of Laredo, Webb County, the State of Texas and LNB to provide mortgage loans to families at or below 50% of the Laredo MSA MFI. Underwriting criteria allows for expanded debt/income ratios. This program was introduced in August of 1997 with LNB committing to fund \$3.1 million to finance 71 households in the subdivision. No loans, however, had been funded as of the time of this evaluation.

INVESTMENT TEST

LNB has an adequate level of qualified community development investments and grants that directly benefit the Laredo MSA. During the evaluation period, LNB invested in one qualified community development investment. LNB purchased 49% of the Azteca Development Low Income Housing Tax Credit for a total investment of \$916,602. The investment facilitated the construction of a 50 unit, low-income housing project. LNB also made 33 grants and donations totaling \$121,863 to qualified community development initiatives directly benefitting the Laredo MSA. The organizations receiving the benefit of these proceeds include the Laredo-Webb NHS, the United Way of Laredo, LULAC of Laredo, Habitat for Humanity (Laredo) and the Border Children’s Trust Fund.

SERVICE TEST

Retail Banking Services

The availability and effectiveness of LNB’s service-delivery system in the Laredo MSA is good. Full service branches are reasonably distributed throughout the MSA. A new branch has received regulatory approval and is currently under construction in a moderate-income tract in South Laredo, in response to the community’s request for this need. This is expected to enhance overall delivery systems to low- and moderate-income persons and geographies in the Laredo MSA. No branches have been closed since the last evaluation.

The following table illustrates how LNB’s locations generally reflect the income distribution of the area’s geographies. All full service offices have a motor bank facility and one or more full-service ATMs.

Distribution of Delivery System By Income Level of the Census Tracts in the Laredo MSA								
Community Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	0	0%	11	46%	8	33%	5	21%
Type of Service	#	%	#	%	#	%	#	%
Full Service Offices	NA	NA	1	25%	0	0%	3	75%
ATMs-At Bank Offices	NA	NA	1	25%	0	0%	3	100%
ATMs-At Nonbank Locations s	NA	NA	2	25%	2	25%	4	50%
Total Locations	NA	NA	4	25%	2	12%	10	63%

Source: Internal bank records.

Accessibility is augmented by alternative delivery systems available to customers throughout the Laredo MSA. LNB offers four full-service ATMs at office locations and 8 full-service ATMs at nonbank locations that allow for 24-hour banking. In addition, LNB also offers telephone access to loan applications and account transactions.

Services offered by LNB in the Laredo MSA reflect those offered by the overall bank. Hours of operation in the Laredo MSA are equitable. Hours were recently lengthened for most Laredo locations - both lobby and motor bank - from a 4 P.M. closing on Monday through Friday, to 6:30 P.M. Monday through Thursday and 7 P.M. on Fridays, and from 2 P.M. on Saturday to 3 P.M. Hours are commensurate with those offered locally by other financial institutions, including LNB's most significant competitor in the Laredo MSA

Community Development Services

LNB is a leader in providing community development services in the Laredo MSA. All of the community development services provided by LNB benefit Laredo area residents and geographies. These services are centered in LNB's concerted efforts to make affordable housing a reality for more low- and moderate-income residents. Examples include the following:

Laredo/Webb NHS, Inc. (Laredo) - LNB has been a leader in Laredo through this organization, since its inception in 1991. In this position, LNB has been instrumental in helping to secure grants for this organization primarily for down payment and closing cost assistance for low- and moderate-income applicants. Two of the more significant grants were to the organization's "Seven" Program which is further described below. LNB has solicited grants for operating costs of the organization. LNB also helped develop the home buyer counseling program and underwriting guidelines used by the NHS, and helps review loan applications.

Federal Home Loan Bank of Dallas (FHLB) - LNB has provided extensive technical expertise to obtain a variety of matching grants from the FHLB for several nonprofit organizations in the Laredo MSA engaged in affordable housing initiatives. Since the prior evaluation, 11 grants totaling \$724,245 have been secured for a total of 188 homes. Most of the programs are for down payment and/or closing cost assistance in purchasing or improving homes of low- and moderate-income persons. The following discusses the grants.

- ▶ **Vaquillas Development, LTD.** - One grant for \$248,500. Award specifies assistance for closing costs and down payments for 71 homes in Concord Hills project for low- and moderate-income applicants. LNB, as sponsor and administrator of this program, has agreed to finance all home loans originated under this grant.
- ▶ **Laredo/Webb NHS, Inc.** - A grant for \$125,300 in 1996 and another identical grant for 1997 for the organization's "Seven" Program. The seven home buyers approved under each program receive \$17,900 each for down payment and closing cost assistance. LNB provided extensive help in preparing and submitting the grant applications, including underwriting guidelines to be used for qualifying LMI applicants. As required by the FHLB, LNB administers this program since it was the sponsor of the grant application. Three other grants for this organization were obtained, two of which were for operating expenses of the organization and the third was for down payment and closing cost assistance.

- ▶ **Other Grants** - A \$2,000 grant for B.E.S.T. (Bringing Everyone Special Together) operating costs. This group has teamed with the Laredo/Webb NHS, Inc. to secure various FHLB and/or Texas Department of Housing and Community Affairs (TDHCA) grants. The \$33,725 grant to the Helping Hands Program is a companion to the Vaquillas Development grant to provide additional closing cost assistance for the 71 home purchases in the Laredo MSA.

Terra-Genesis Local Housing Board - This is a statewide nonprofit housing agency that owns and offers housing exclusively to low-income elderly people. LNB provides technical assistance for the review of rental applications and general assistance on financial issues.

Laredo Habitat for Humanity - LNB has given technical assistance in the preparation of loan documents and loan and collection policies, and has helped plan the financial aspects of construction of homes for low- and moderate-income people.

Fannie Mae South Texas Advisory Council - This organization's mission is to develop affordable housing products that can be used by Fannie Mae lenders to help low- and moderate-income families. LNB helped develop a lease-purchase program for South Texas which is used by the City of Laredo, and a "higher qualifying ratio" loan product for which low-income families could more easily qualify.

Webb County Housing Finance Board - A LNB officer was chairman of the board of this organization that designed, finalized, and implemented a county-wide Affordable Housing Bond issue. The officer provided leadership and technical expertise instrumental in getting this first-ever affordable housing bond issue for the county.

Home buyer Education Programs - LNB officers are very active in the Laredo area in providing home ownership counseling and financial planning to individuals and groups, primarily focusing on low- and moderate-income persons and families. The bank also provides its facilities for this purpose. Organizations include the City of Laredo Affordable Housing Programs, the Laredo/Webb NHS, Inc. and the Fannie Mae and HUD Affordable Housing Clinics.

Credit Fairs - LNB has participated in credit fairs in Laredo in which the bank provided information on basic banking services, budgeting, completing loan applications, home ownership counseling and maintaining a good credit history.

Fund-Raising Efforts - LNB has helped several organizations raise monies for their daily operations or for funding affordable housing. The most prolific results are with Laredo/Webb NHS. Another group that has benefitted from LNB's assistance is the Border Low-Income Housing Coalition.

Metropolitan Areas

Description of Institution's Operations in the McAllen-Edinburg-Mission MSA

LNB has defined the entire McAllen-Edinburg-Mission MSA as its assessment area for its office located in the McAllen metropolitan area. LNB operates one full-service branch office and two proprietary ATMs in the City of McAllen.

Deposits originating from the McAllen-Edinburg-Mission MSA represent 5% of LNB's total deposits. A significant percentage of these deposits are foreign. In terms of market share (as of June 30, 1997), LNB holds approximately 2% (\$75 million) of commercial bank deposits in the MSA. This places LNB ninth out of nineteen commercial banks in the MSA. The market is dominated by a large state bank (Texas State Bank) with 29%, branches of an affiliate of a large national banking company (Texas Commerce Bank, N.A.) with 16% and the other mid-size regional bank headquartered in Laredo that is LNB's primary competitor (International Bank of Commerce) with 17% of the market.

Description of the McAllen-Edinburg-Mission MSA

The McAllen-Edinburg-Mission MSA is composed of Hidalgo County and includes 63 census tracts. The MSA is located in south Texas, southeast of the Laredo MSA. The following table provides basic demographic information based on the income level of the census tracts and families within the MSA. There are no census tracts defined as low-income.

Demographic Information McAllen-Edinburg-Mission MSA Assessment Area										
Income Category	By Income Level of the Census Tract								Families by Income Level	
	Census Tracts		Population		Businesses		Owner Occupied Housing			
	#	%	#	%	#	%	#	%	#	%
Low	0	0%	0	0%	0	0%	0	0%	21,801	25%
Moderate	19	30%	107,071	28%	2,154	25%	17,758	24%	14,605	16%
Middle	27	43%	180,363	47%	3,029	35%	35,430	49%	14,701	17%
Upper	17	27%	96,111	25%	3,511	40%	19,524	27%	37,507	42%
Totals	63	100%	383,545	100%	8,694	100%	72,712	100%	88,615	100%
Median Family Income = \$17,619					Median Housing Value = \$38,999					
HUD Adjusted Median Family Income for 1997 = \$24,800					Median Year Built = 1976					

Source: 1990 U.S. Census and HUD 1997 Updated MFI.

The Department of Housing and Urban Development's (HUD's) 1997 updated MFI for the MSA is only \$24,800. This is the income level used to determine the income level of families within the MSA. This compares to HUD's 1997 updated MFI for all MSAs in the State of Texas at \$44,775 and provides some insight into the comparatively poor population in the MSA. The MSA has a high level of persons living below the poverty level at 36%. This compares to the average for all MSAs in the State of Texas at only 15%. A low-income family in the McAllen-Edinburg-Mission MSA has an income of less than \$12,400. It is noted that, although 25% of the families in the MSA are defined as low-income, no census tracts are defined as low-income. A substantial 36% of low-income families reside in moderate-income and 49% in middle-income census tracts. This distribution could distort the analysis of the geographic distribution of LNB's loan originations by census tract.

The economy in the MSA is relatively healthy. Unemployment levels have historically fallen below statewide averages. The major industries in the MSA are retail and wholesale trade, and services. Many of the jobs in these industries are low-wage which helps to explain the high volume of people living below the poverty level. The McAllen-Edinburg-Mission MSA is also one of the fastest growing MSAs in the country.

Community contacts performed in the last year included meetings with a local housing authority, a development council and an affordable home program business. The needs identified included small loans, loans for small businesses, long-term fixed rate financing of homes and more development of infrastructure. Overall, community development opportunities in the MSA are characterized as moderate.

Conclusions about Performance Tests in the McAllen-Edinburg-Mission MSA

LNB's performance under the investment and service tests in the McAllen-Edinburg-Mission MSA is not consistent with its performance overall. In general, performance under each test in the MSA is below the performance of the bank overall. As LNB derives only a small portion of its deposits (5%) from the MSA, the impact of LNB's performance in the MSA on the bank's overall rating was weighted proportionately.

LENDING TEST

Lending Activity

LNB's lending levels reflect an adequate responsiveness to credit needs in the McAllen-Edinburg-Mission MSA. During the evaluation period, LNB's loans in the MSA grew by 8%, while deposits grew by 18%. As of September 30, 1997, LNB reported a loan-to-deposit ratio of 55% for the MSA. When the ratio is adjusted to net out significant foreign loans and deposits, the ratio exceeds 100%.

Geographic Distribution of Loans within the McAllen-Edinburg-Mission MSA

Home Mortgage Loans

The geographic distribution of LNB's home mortgage loan originations reflect an adequate penetration throughout the MSA. Some of the gaps in penetration of census tracts can be explained by the location of LNB's singular branch in the City of McAllen versus the comparatively large number of geographies located outside of the City not reasonably served by the branch. The percentage of home mortgage loans made in moderate-income census tracts represents 71% of the percentage of owner-occupied housing units that are within these tracts.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within the McAllen-Edinburg-Mission MSA By Income Level of the Census Tracts								
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	0	0%	19	30%	27	43%	17	27%
Census Tracts Penetrated (% of tracts in income group)	NA	NA	7	37%	11	41%	13	76%
Owner-Occupied Hsg Units	NA	NA	17,758	24%	35,430	49%	19,524	27%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	NA	NA	8	16%	15	29%	28	55%
Refinance	NA	NA	0	0%	2	33%	4	67%
Home Improvement	NA	NA	8	24%	10	30%	15	45%
Multi-family	NA	NA	0	0%	0	0%	3	100%
Grand Total	NA	NA	16	17%	27	29%	50	54%

Source: 1990 U.S. Census and HMDA information.

A market share analysis of home mortgage loan originations in the McAllen-Edinburg-Mission MSA is not meaningful. Based on 1996 aggregate HMDA data, LNB ranks 32nd with only .58% of total home mortgage originations in the MSA.

Small Business Loans

The geographic distribution of LNB's small business loan originations reflects an adequate penetration throughout the McAllen-Edinburg-Mission MSA. The portion of reported small loans to businesses made by LNB in moderate-income areas is somewhat lower than the portion of the market's businesses in those areas.

Distribution of Small Business Loan Originations in 1996 and YTD 1997 Within the McAllen-Edinburg-Mission MSA By Income Level of the Census Tracts									
Census Tract Data		Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts		0	0%	19	30%	27	43%	17	27%
Census Tracts Penetrated (% of tracts in income group)		NA	NA	8	42%	11	41%	14	82%
Number of Businesses		NA	NA	2,154	25%	3,029	35%	3,511	40%
Loan Product		#/\$	%	#/\$	%	#/\$	%	#/\$	%
Small Business	#	NA	NA	29	18%	41	26%	88	56%
	\$	NA	NA	\$3,946	20%	\$4,119	21%	\$11,521	59%

Source: Dunn and Bradstreet Business Demographic Data and small business data collected by the bank.

Based on 1996 aggregate small business data, LNB ranks 8th with 1.69% of total small business loan originations in the McAllen-Edinburg-Mission MSA. LNB's performance in moderate-income geographies is near overall performance in the MSA, with a rank of 10th and 1.62% of the market. Refer to the Lending Test section at the front of this Evaluation discussing LNB's overall performance, for presentation of this information in table format.

Small Farm

LNB did not originate any small farm loans in the MSA. Small farm lending is not a primary business focus of the bank.

Distribution of Borrowers within the McAllen-Edinburg-Mission MSA

Home Mortgage Loans

The distribution of LNB's home mortgage loan originations reflects an adequate penetration among borrowers of different income levels in the MSA. The percentage of home mortgage loans made to low- and moderate-income families represents 4% and 94%, respectively, of the percentage of families

that are within these income categories. Performance in these areas is centered in home improvement loans. The lower percentage penetration of low-income families is reflective of the difficulty in making home mortgage loans in the MSA, when low-income families have incomes of less than \$12,400. Refer to the “Description of the Assessment Area” for additional performance context information.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within the McAllen-Edinburg-Mission MSA By Income Level of the Borrower								
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	21,801	25%	14,605	16%	14,701	17%	37,507	42%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	0	0%	3	6%	7	14%	40	80%
Refinance	0	0%	0	0%	0	0%	6	100%
Home Improvement	1	3%	10	31%	15	47%	6	19%
Grand Total*	1	1%	13	15%	22	25%	52	59%

Source: 1990 U.S. Census and HMDA information.

* The totals do not include 5 loans to borrowers with unknown incomes.

Small Business Loans

The distribution of small loans to business originated by LNB reflects an adequate responsiveness to the credit needs of small businesses within the MSA. Of the number of small loans to businesses originated by LNB, approximately 64% were in amounts of less than \$100 thousand. In addition, approximately 84% of the number and 72% of the dollars of loans originated by LNB were to businesses with annual revenues of less than \$1 million. This compares favorably to the distribution of businesses within the MSA.

Distribution of Small Business Loan Originations in 1996 and YTD 1997 Within the McAllen-Edinburg-Mission MSA By Loan Size and Business Revenues								
Loan Size					Annual Revenues < \$1 Million			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	102	64%	\$5,254	27%	91	89%	\$4,512	86%
\$100,000 to \$250,000	42	27%	\$6,832	35%	34	81%	\$5,272	77%
\$250,000 to \$1,000,000	14	9%	\$7,500	38%	7	50%	\$4,242	57%
Totals	158	100%	\$19,586	100%	132	84%	\$14,026	72%
Distribution of Businesses in the MSA by Annual Revenues of the Business:				< 1 Million	75%	*As a percentage of loans of the size category		
				> 1 Million	9%			
				Unknown	16%			

Source: Dun & Bradstreet Business Demographic Data and small business data collected by the bank.

Based on 1996 aggregate small business data, the percentage of small loans to businesses originated by

LNB in amounts of \$100 thousand or less is 79% of the percentage of loans made by the aggregate market in amounts of \$100 thousand or less. The percentage of loans originated by LNB to businesses with annual revenues of less than \$1 million is 121% of the percentage of loans made by the aggregate market to businesses with revenues of less than \$1 million. LNB's market share of loans to businesses with revenues less than \$1 million (2.39%) represents 141% of its overall market share. Refer to the Lending Test section at the front of this Evaluation discussing LNB's overall performance, for presentation of this information in table format.

Community Development Loans

LNB has funded one community development loan in the McAllen-Edinburg-Mission MSA. The loan, funded in 1996 for \$275 thousand. This total represents 95% of the total dollar volume of community development lending by LNB and is significant in relation to the size of LNB's presence in this market. The purpose of the loan was to fund the non-profit borrower's business of making home loans to low-income families.

Product Innovation and Flexibility

LNB's use of flexible and/or innovative lending practices in the MSA is limited. LNB offers a flexible loan program geared to increase the volume of loans originated to low- and moderate-income families in the MSA. The Amigos Del Valle (16 Homes) loan program is a coordinated effort between Amigos Del Valle, Inc. and LNB. Underwriting criteria allows for down payment funds to come from sources other than the purchaser. LNB committed to fund \$503 thousand for permanent financing of 16 single family residences. No loans had been funded, however, at the time of this evaluation. The program is not considered innovative.

INVESTMENT TEST

LNB's qualified community development investments reflects a poor responsiveness to the community development needs of the McAllen-Edinburg-Mission MSA. LNB's qualified community development investments are limited to eleven grants totaling \$12,600. LNB made contributions totaling \$7,000 to the Salvation Army, \$2,500 to Amigos Del Valle, Inc., \$2,000 to Colonias Del Valle, Inc., \$1,000 to Habitat for Humanity and \$100 to the Mission Boys and Girls Club. Even with a minimal presence in the market, LNB's participation in local programs is not commensurate with its deposit share position. Investment opportunities in the MSA are considered moderate.

SERVICE TEST

Retail Banking Services

The availability and effectiveness of LNB's service delivery systems in the McAllen-Edinburg-Mission MSA are adequate. A full service branch is reasonably located in the center of the MSA. The branch and attached proprietary ATM are located in a moderate-income census tract. Another proprietary ATM

is located in an upper-income census tract. No branches have been opened or closed, since the last evaluation. In addition to the ATMs, accessibility is further augmented by telephone banking. This includes access to loan applications and account transactions.

Services offered by LNB in the MSA reflect those offered by the bank overall. They do not vary in a way that would inconvenience any portions of the MSA. The branch's lobby hours are somewhat longer than normal for banks in the area, with closing times of 5 P.M, Monday through Thursday, and 5:30 P.M. on Friday.

Community Development Services

LNB provides an adequate level of community development services in the MSA. Services are consistent with LNB's overall focus on affordable housing. LNB bank has helped local non-profit organizations develop and implement loan programs, develop loan and collection policies and prepare grant applications. This help has resulted in three grants from the Federal Home Loan Bank of Dallas that benefit the MSA. Two of the grants were secured by the Rio Grande Habitat for Humanity for down payment and closing cost assistance and operating costs. These grants total \$43,000 and are to be used to help fund 9 affordable housing units. The third grant was secured by Amigos Del Valle for \$56,000 targeted to help fund 16 affordable housing units.

LNB has also assisted the McAllen Habitat for Humanity and McAllen Affordable Homes programs. LNB aided Habitat in developing loan and collection policies and proper loan documentation guidelines. Assistance to the McAllen Affordable Homes program included developing loan and collection policies and overall assistance in applying for grants.

Metropolitan Areas

Description of Institution's Operations in the San Antonio MSA

LNB has defined the entire San Antonio MSA as its assessment area for offices located in the San Antonio metropolitan area. LNB operates three full service branches and one attached proprietary ATM in the MSA. The San Antonio MSA assessment area is very large and includes substantial geographies not reasonably served by LNB's branches, all located in the City of San Antonio.

Deposits originating from the San Antonio MSA represent only 4% of LNB's total deposits. In terms of market share (as of June 30, 1997), LNB holds less than 1% (\$55 million) of bank deposits in the MSA. Local banking competition is dominated by a locally headquartered mid-size regional bank (Frost National Bank). Credit unions are also major players in the San Antonio MSA. They serve large populations of military workers and federal employees and hold more than 30% of the deposits in the City of San Antonio. Other competition includes affiliates of large national banking companies, mid-size community banks and numerous small community banks.

Description of the San Antonio MSA

The San Antonio MSA is composed of the counties of Bexar, Comal, Guadalupe and Wilson, and includes 256 census tracts. Three of the census tracts, representing 1% of the total number of tracts, are not classified by income level and are not included in the following table. The table provides basic demographic information based on the income level of the census tracts and families within the San Antonio MSA.

Demographic Information San Antonio MSA Assessment Area										
Income Category	By Income Level of the Census Tract								Families by Income Level	
	Census Tracts		Population		Businesses		Owner Occupied Housing			
	#	%	#	%	#	%	#	%	#	%
Low	22	9%	97,222	7%	2,567	6%	13,575	5%	76,312	23%
Moderate	75	30%	380,060	29%	10,471	26%	69,208	25%	58,062	17%
Middle	88	35%	474,841	36%	15,783	39%	97,210	36%	68,215	20%
Upper	68	27%	368,620	28%	11,863	29%	93,132	34%	136,035	40%
Totals	253	100%	1,324,743	100%	40,688	100%	273,125	100%	338,630	100%
Median Family Income = \$29,898					Median Housing Value = \$64,595					
HUD Adjusted Median Family Income for 1997 = \$38,900					Median Year Built = 1968					

Source: 1990 U.S. Census and HUD 1997 Updated MFI.

Approximately 20% of the housing stock in the San Antonio MSA is determined to be substandard.

Many low-income households are being excluded from the first time home buyer market because they lack the necessary funds for down payment and/or closing costs.

The San Antonio economy is considered to be stable and improving. The unemployment rate is comparable to state and national averages. Government, tourism, retail trade, medical and research interests and apparel manufacturing support the region's economy. Principal private employers include USAA Federal Savings Bank, HEB Groceries and Methodist Healthcare System. Principal public sector employers include Kelly Air Force Base, the City of San Antonio and the San Antonio Independent School District. Kelly Air Force Base has been recommended for closure in 2001. A privatization plan developed by community and civic leaders aims to support small business expansion, in order to retain the civilian workforce.

A review of peer bank CRA Performance Evaluations, community contacts conducted within the assessment area and information produced by the City of San Antonio indicates a number of opportunities to participate in community development lending, investments and service activities within the San Antonio MSA. There are numerous public agencies and community- and neighborhood-based organizations that focus on economic development. The contacts identified the primary credit needs of the community as affordable housing, affordable home improvement and small business loans. Overall, community development opportunities in the San Antonio MSA are characterized as moderate.

Conclusions with Respect to Performance Tests in the San Antonio MSA

LNB's performance under the investment and service tests in the San Antonio MSA is not consistent with its performance overall. In general, performance under each test in the MSA is below the performance of the bank overall. The lack of performance is partly attributed to LNB's comparatively insignificant presence in a very large market dominated by a locally headquartered regional bank, affiliates of large national banking companies and aggressive credit unions. As LNB derives only a small portion of its deposits (4%) from the San Antonio MSA, the impact of LNB's performance in the MSA on the bank's overall rating was weighted proportionately.

LENDING TEST

Lending Activity

LNB's lending levels reflect an improved responsiveness to credit needs in the San Antonio MSA. During the evaluation period, LNB's loans in the MSA tripled while deposits grew by a more modest 55%. As of September 30, 1997, LNB reported a loan-to-deposit ratio of 54% in the San Antonio MSA. This compares favorably to a ratio of only 11% reported on March 31, 1995. When the current ratio is adjusted to net out foreign loans and deposits, the ratio rises significantly.

In the following analysis of lending in the San Antonio MSA, more weight was given to the distribution of small business loans than to home mortgage loans. This approach was used, as small business loan originations comprise 85% of the total number of reportable originations in the San Antonio MSA over the evaluation period.

Geographic Distribution of Loans within the San Antonio MSA

Home Mortgage Loans

The geographic distribution of LNB’s home mortgage loan originations reflects poor penetration throughout the San Antonio MSA. LNB has penetrated only a small portion of the census tracts in the MSA, with no home mortgage loan originations in low-income census tracts. Some of these gaps can be explained by LNB’s small branch network centered in the City of San Antonio versus the very large number of geographies located outside of the City not reasonably served by the network. The percentage of home mortgage loans made in moderate-income census tracts represents only 52% of the percentage of owner-occupied housing units that are within these tracts.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within the San Antonio MSA By Income Level of the Census Tracts								
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	22	9%	75	30%	88	35%	68	27%
Census Tracts Penetrated (% of tracts in income group)	0	0%	6	8%	9	10%	19	28%
Owner-Occupied Hsg Units	13,575	5%	69,208	25%	97,210	36%	93,132	34%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	0	0%	3	10%	11	38%	15	52%
Refinance	0	0%	0	0%	0	0%	6	100%
Home Improvement	0	0%	2	22%	1	11%	6	67%
Multi-family	0	0%	1	100%	0	0%	0	0%
Grand Total	0	0%	6	13%	12	27%	27	60%

Source: 1990 U.S. Census and HMDA information.

A market share analysis of home mortgage loan originations in the San Antonio MSA is not meaningful. Based on 1996 aggregate small business data, LNB ranks 167th with only .03% of total home mortgage originations in the San Antonio MSA.

Small Business

The geographic distribution of LNB's small business loan originations reflects an adequate penetration throughout the San Antonio MSA. The portion of reported small loans to businesses made by LNB in low-income areas equals the portion of the market's businesses in those areas, while loans made in moderate-income areas is somewhat lower than the portion of the market's businesses in those areas.

Distribution of Small Business Loan Originations in 1996 and YTD 1997 Within the San Antonio MSA By Income Level of the Census Tracts									
Census Tract Data		Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts		22	9%	75	30%	88	35%	68	27%
Census Tracts Penetrated (% of tracts in income group)		7	32%	15	20%	26	30%	37	54%
Number of Businesses		2,567	6%	10,471	26%	15,783	39%	11,863	29%
Loan Product		#/\$	%	#/\$	%	#/\$	%	#/\$	%
Small Business	#	16	6%	47	18%	90	35%	101	40%
	\$	\$1,580	5%	\$4,291	13%	\$10,762	34%	\$15,403	48%

Source: Dunn and Bradstreet Business Demographic Data and small business data collected by the bank.

Based on 1996 aggregate small business data, LNB ranks 17th with .7% of total small business loan originations in the San Antonio MSA. LNB's performance in low-income geographies exceeds its overall performance in the San Antonio MSA, with a rank of 14th and 1.24% of the market. Performance in moderate-income geographies resembles LNB's overall performance in the MSA. Refer to the Lending Test section at the front of this Evaluation discussing LNB's overall performance, for presentation of this information in table format.

Small Farm

LNB originated one small farm loan totaling \$40 thousand in the San Antonio MSA. The loan was to a farm located in a middle-income census tract. The metropolitan nature of the San Antonio MSA, the location of LNB's branches and LNB's primary focus on business lending, mitigate the lack of small farm lending in the MSA.

Distribution of Borrowers within the San Antonio MSA

Home Mortgage Loans

The distribution of LNB's home mortgage loan originations reflects a very poor penetration among borrowers of different income levels in the San Antonio MSA. Some of these gaps can be explained by LNB's small branch network centered in the City of San Antonio versus the very large number of

families located outside of the City not reasonably served by the network. The percentage of home mortgage loans made to low- and moderate-income families represents only 22% and 41%, respectively, of the percentage of families that are within these income categories.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within the San Antonio MSA By Income Level of the Borrower								
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	76,312	23%	58,062	17%	68,215	20%	136,035	40%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	1	4%	3	11%	1	4%	23	82%
Refinance	0	0%	0	0%	0	0%	5	100%
Home Improvement	1	13%	0	0%	1	13%	6	75%
Grand Total	2	5%	3	7%	2	5%	34	83%

Source: 1997 HUD Updated MFI and HMDA information.

* The totals do not include 4 loans to borrowers with unknown incomes.

Small Business Loans

The distribution of small loans to business originated by LNB reflects an adequate responsiveness to the credit needs of small businesses within the San Antonio MSA. Of the small loans to businesses originated by LNB, approximately 69% were in amounts of less than \$100 thousand. In addition, approximately 61% of the number of loans originated by LNB were to businesses with annual revenues of less than \$1 million.

Distribution of Small Business Loan Originations in 1996 and YTD 1997 Within the San Antonio MSA By Loan Size and Business Revenues								
	Loan Size				Annual Revenues < \$1 Million			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	174	69%	\$6,023	19%	131	75%	\$4,410	73%
\$100,000 to \$250,000	44	17%	\$7,686	24%	15	34%	\$2,755	36%
\$250,000 to \$1,000,000	36	14%	\$18,327	57%	10	28%	\$4,852	26%
Totals	254	100%	\$32,036	100%	156	61%	\$12,017	38%
Distribution of Businesses in the MSA by Annual Revenues of the Business:			< 1 Million	71%	*As a percentage of loans of the size category			
			> 1 Million	9%				
			Unknown	20%				

Source: Dun & Bradstreet Business Demographic Data and small business data collected by the bank.

Based on 1996 aggregate small business data, the percentage of small loans to businesses originated by LNB in amounts of \$100 thousand or less is 79% of the percentage of loans made by the aggregate market in amounts of \$100 thousand or less. The percentage of loans originated by LNB to businesses with annual revenues of less than \$1 million is 108% of the percentage of loans made by the aggregate market to businesses with revenues of less than \$1 million. LNB's market share of loans to businesses with revenues less than \$1 million (1.2%) is almost double its overall market share. Refer to the Lending Test section at the front of this Evaluation discussing LNB's overall performance, for presentation of this information in table format.

Community Development Loans

LNB has not funded any community development loans in this assessment area. LNB's comparatively minor presence in the market and competition for such loans from the larger banks that dominate the market contribute to LNB's lack of performance in this area. The San Antonio MSA has a moderate level of opportunities available for community development lending. Positive consideration is given to the fact that a portion of LNB's loan originations, reported and considered as home mortgage or small business loans, have community development characteristics.

INVESTMENT TEST

LNB's qualified contributions to community development initiatives reflects a poor responsiveness to the community development needs of the San Antonio MSA. LNB's qualified community development investments are limited to five grants totaling \$7,930. Even with a minimal presence in the market, LNB's participation in local programs is not commensurate with its deposit share position. Investment opportunities in the MSA are considered moderate.

LNB contributed \$6,000 to the Battered Women's Shelter of San Antonio. Contributions were also made to Avendia Guadalupe (nonprofit organization that assists low income individuals in obtaining housing), the Neighborhood Reinvestment Corporation, the San Antonio Wheelchair Association and St. John Bosco School (provide tuition for low-income families).

SERVICE TEST

Retail Banking Services

The availability and effectiveness of LNB's service delivery systems in the San Antonio MSA are only adequate. As the assessment area includes a very large geographic area, LNB's small branch network is accessible to only limited portions of the assessment area. LNB's offices are concentrated in the central to north central part of the City of San Antonio which comprises the majority of Bexar County. LNB has no offices or ATMs in any of the three other counties that are included in the San Antonio MSA.

Overall accessibility has been improved with the opening of two branches, since the last evaluation. One new branch is in a low-income tract, while the other is in a middle-income tract. No branches have been closed, since the last evaluation.

Distribution of Delivery System Within the San Antonio MSA/Assessment Area By Income Level of the Census Tracts								
Community Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	22	9%	75	29%	88	35%	68	27%
Type of Service	#	%	#	%	#	%	#	%
Full Service Offices	1	33%	0	0%	2	67%	0	0%
ATMs-At Bank Offices	0	0%	0	0%	1	100%	0	0%
ATMs-At Nonbank Offices	0	0%	0	0%	0	0%	0	0%
Total Locations	1	25%	0	0%	3	75%	0	0%

Source: Internal bank records.

Accessibility is augmented by alternative delivery systems available to customers throughout the San Antonio MSA. LNB offers one full-service ATM that provides 24-hour banking. LNB also offers telephone banking including access to loan applications and account transactions.

Services offered by LNB at office locations in the San Antonio MSA reflect those offered by the bank overall. Hours of operation are reasonable and do not vary by office location. All facilities are open Saturday from 9 A.M. to 1 P.M., commensurate with most San Antonio financial institutions.

Community Development Services

No community development services are provided by LNB in the San Antonio MSA. Community development opportunities in the MSA are characterized as moderate.

Appendix A: Examination Scope

Time period reviewed	February 17, 1995 through September 30, 1997		
Financial Institution The Laredo National Bank Laredo, Texas	Products Reviewed Home mortgage, small business and small farm loans. The review of lending performance focused on loans originated in 1996 through September 30, 1997, as an indicator of LNB's performance over the entire review period. The review of community development loans, services and investments, as well as non-community development related service activities, covered the entire review period.		
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Houston MSA	Off-site	None	1 branch. No small farm loans.
Laredo MSA	On-site	Main Office	Main office and 3 branches.
McAllen/Edinburg/Mission MSA	Off-site	None	1 branch. No small farm loans.
San Antonio MSA	Off-site	None	3 branches.