



Comptroller of the Currency
Administrator of National Banks

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Community Reinvestment Act Performance Evaluation

**Frost National Bank
Charter Number: 5179**

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San Antonio, Texas 78205**

Office of the Comptroller of the Currency

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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 **Frost National Bank** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **February 9, 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, and not a strict legal definition.

Assessment Area (AA) - This area is defined by the bank. It is the geographical boundary where the bank's Community Reinvestment Act activities are evaluated.

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. MSAs consist of one or more counties or parishes, including large population centers and nearby communities that have a high degree of interaction.

Metropolitan Area (MA) - Area defined by the bank which may or may not include the entire MSA associated with the city named. This term and the term "Assessment Area" are used interchangeably in this Performance Evaluation.

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 loan application activity. The reports include such data as the race, gender and income of applicants, the amount of loan requested, and its disposition (e.g., approved, denied, withdrawn). For the purposes of this Performance Evaluation, HMDA related loans discussed herein are home purchase/refinance and home improvement loans.

Community Development Corporation (CDC) - An entity organized to provide affordable housing and other community development services to a designated area.

Automated Teller Machine (ATM) - A machine offering limited banking services including dispensing cash and accepting deposits or loan payments.

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 United States Department of Housing and Urban Development (HUD) annually 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.

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

The major factors which support this rating include:

- ▶ A good responsiveness to home, small business, and consumer credit needs in Frost’s assessment area.
- ▶ A substantial majority of home mortgage, consumer, and small business related loans were originated within the assessment areas.
- ▶ The distribution of all types of loans to borrowers of varying income levels and small businesses of different sizes is good.
- ▶ A good dispersion of home, small business, and consumer loans throughout the assessment areas. The bank’s market share for home and small business loans in low-income census tracts far exceeds its overall market share.
- ▶ An adequate level of community development lending and investment, given opportunities available within the bank’s assessment areas.
- ▶ The use of innovative and flexible underwriting guidelines to meet the credit needs of both individuals and small businesses.
- ▶ The reasonable accessibility of Frost’s services through branch and ATM locations, and telephone and computer banking services.
- ▶ A good level of community development services.

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

Performance Levels	Frost 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

Frost National Bank (Frost) is the largest commercial bank domiciled in San Antonio, Texas. As of March 31, 1997, the bank reported total assets of \$5.1 billion and an average aggregate loan to deposit ratio of 55% since the previous CRA evaluation period. Frost is the only locally owned bank domiciled in San Antonio with branch operations throughout major portions of the state. The bank is a wholly-owned subsidiary of Cullen/Frost Bankers, Inc. This is a multi-bank holding company with its headquarters located in San Antonio, Texas. This is also the holding company of United States National Bank, a \$140 million institution located in Galveston, Texas.

From its original locations in San Antonio, Texas, Frost has expanded, via bank acquisitions and new branch openings, to include locations in five of the twenty-seven MSA's in Texas. The bank also has a full service branch in Boerne, Texas, located in Kendall County. Frost has 54 full-service branches including its main office and 64 ATM locations in its San Antonio, Houston, Austin-San Marcos, Corpus Christi, McAllen, and Kendall County assessment areas. Non-proprietary ATM services are also available with no terminal fees at 66 HEB and Pantry Food store locations throughout the bank's assessment areas. As of June 30, 1997, Frost's market share was approximately 6% of bank deposits in the combined assessment areas. Market shares in the MSAs range from a low of approximately 2% in Houston to a high of 29% in Kendall County. Approximately 59% of Frost's total deposits come from the San Antonio market.

There are no financial impediments which limit Frost's ability to help meet the credit needs of its assessment areas. Frost is adequately capitalized and operates profitably. Frost offers a full range of financial and credit services throughout its assessment areas. These include commercial, real estate (including home improvement), and consumer loan products. Outstanding small business and farm loans account for 47% of total loans. Consumer loans constitute approximately 21% of the loan portfolio, and residential real estate loans make up some 17%.

Frost has established six assessment areas, four of which consist of whole MSAs, one partial MSA, and one nonmetropolitan area. This evaluation provides a combined analysis that includes all assessment areas. Also, an analysis and description of each assessment area is contained in this report.

Frost's CRA performance was last evaluated as of April 29, 1996. At that time the bank's overall level of performance was rated "Outstanding". This performance evaluation includes data for the entire year of 1996. The entire year was included because the prior public evaluation only used numerical data through December 31, 1995. We evaluated numerical data for both small business and consumer loans from January 1, 1996 through November 30, 1997. Year-end 1997 data was not available for these loan products when our review commenced. We evaluated data for HMDA related loans from January 1, 1996 through December 31, 1997.

Conclusions about Performance Tests

LENDING TEST - ALL ASSESSMENT AREAS COMBINED

Lending Activity

Lending levels reflect a good responsiveness to credit needs in Frost's assessment areas. The bank's average loan-to-deposit ratio since the previous CRA examination equals 55%. The bank's loan portfolio has grown 44% since the previous CRA evaluation. This growth has been accomplished internally and through acquisitions of other financial institutions. Also, the bank has a considerable amount of public funds and foreign deposits. After netting out both public funds and foreign deposits, the bank's loan deposit ratio is approximately 70% as of December 31, 1997. There are no similarly situated banks domiciled in San Antonio with a statewide branch network comparable to Frost.

Frost originated 3,322 mortgage related loans totaling \$197 million from January 1, 1996 through December 31, 1997 within the combined assessment areas. Loans secured by 1-4 family residential properties accounted for approximately 17% of the bank's total loan portfolio as of December 31, 1997.

The bank's small business lending levels are good when compared to available demographic data that shows the number of businesses located in low-, moderate-, middle-, and upper-income census tracts within the combined assessment areas. As noted earlier, small business loans represent approximately 47% of the total loan portfolio. Farm lending represents less than 1% of the total loan portfolio. Therefore, more emphasis was placed on small business lending rather than farm lending in this CRA evaluation. Banks began reporting 1996 small business and farm originations, by census tract, on March 1, 1997. Frost originated over 6,000 small business and farm loans totaling approximately \$568 million from January 1, 1996 through November 31, 1997 within the assessment areas.

Banks are not required to collect and report data on consumer loan activity. Frost chose to collect and report data on consumer loan activity. As of December 31, 1997, consumer loans amounted to 21% of the \$2.6 billion loan portfolio. An evaluation of the consumer loan portfolio is included in this CRA evaluation.

Assessment Area Concentration

Small Business and Farm Loans

Frost originated 6,422 small business and farm loans totaling approximately \$614 million from January 1, 1996 through November 30, 1997. A substantial majority of these loans, both in number and dollar amount, were made in the assessment areas. The following table illustrates the number and dollar volume of small business and farm loans made inside of the assessment areas in 1996 and year-to-date 1997.

Volume of Small Business and Small Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area						
Loan Product	Total Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Small Business	3,046	\$260,003	2,861	94%	\$243,862	94%
Small Farm	9	\$1,194	7	78%	\$864	72%
Total 1996	3,055	\$261,197	2,868	94%	\$244,726	94%
Small Business	3,345	\$351,843	3,124	93%	\$322,195	92%
Small Farm	22	\$1,127	19	86%	\$827	73%
Total YTD 1997	3,367	\$352,970	3,143	93%	\$323,022	92%
Grand Total	6,422	\$614,167	6,011	94%	\$567,748	92%

Source: Bank prepared Small Business and Small Farm Data Collection Registers

Home Mortgage Loans

Frost originated 3,711 mortgage related loans totaling approximately \$215 million from January 1, 1996 through December 31, 1997. Total originations, in both number and dollar amount, reflects good responsiveness to assessment area credit needs.

A substantial majority of home related loans have been made inside of the combined assessment areas. During the time period noted below, 90% of the number and 92% of the dollar volume of home related loans were funded inside of the assessment areas.

Volume of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area						
Product	Total Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Home Purchase/Refinance	1,109	\$97,436	964	87%	\$84,573	87%
Home Improvement	932	\$15,152	873	94%	\$14,357	95%
Multifamily	5	\$6,753	5	100%	\$6,753	100%
Total 1996	2,046	\$119,341	1,842	90%	\$105,683	89%
Home Purchase/Refinance	897	\$81,198	757	84%	\$77,351	95%
Home Improvement	761	\$12,810	716	94%	\$12,202	95%
Multifamily	7	\$1,768	7	100%	\$1,768	100%
Total 1997	1,665	\$95,776	1,480	89%	\$91,321	95%
Grand Total	3,711	\$215,117	3,322	90%	\$197,004	92%

Source: HMDA Loan Application Registers

Consumer Loans

Frost originated 62,188 consumer related loans totaling approximately \$551 million from January 1, 1996 through November 30, 1997. Total originations, in both number and dollar amount, reflects good responsiveness to assessment area credit needs.

A majority of consumer related loans have been made inside of the assessment areas. During the time period noted below, 74% of the number and 70% of the dollar volume of consumer related loans were funded inside of the assessment areas. The percentage of consumer loans inside of the bank's assessment area is somewhat lower than HMDA and small business loan products. The difference can be attributed to the bank's statewide student and indirect motor vehicle loan products.

Volume of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area						
Product	Total Originations		Within the Assessment Area			
	#	\$ (000)	#	%	\$ (000)	%
Motor Vehicle Loans	10,322	\$157,517	6,371	62%	\$94,946	60%
Student Loans	12,039	\$27,343	8,724	72%	\$20,380	75%
Other Secured Loans	2,708	\$35,117	2,533	94%	\$32,616	93%
Other Unsecured Loans	3,858	\$32,898	3,712	96%	\$31,434	96%
Total 1996	28,927	\$252,875	21,340	74%	\$179,376	71%
Motor Vehicle Loans	12,465	\$197,764	7,707	62%	\$119,442	60%
Student Loans	13,023	\$27,858	9,626	74%	\$20,678	74%
Other Secured Loans	2,836	\$36,623	2,634	93%	\$33,917	93%
Other Unsecured Loans	4,937	\$35,586	4,682	95%	\$33,512	94%
Total YTD 1997	33,261	\$297,831	24,649	74%	\$207,549	70%
Grand Total	62,188	\$550,706	45,989	74%	\$386,925	70%

Source: Bank prepared Consumer Loan Data Collection Register

Geographic Distribution of loans within the Assessment Area

Small Business and Farm Loans

The geographic distribution of small business loans reflects a reasonable dispersion throughout the assessment areas. The following chart shows the number of small business/farm loans originated within the assessment areas from January 1, 1996 through November 30, 1997. The chart also displays the number and percentage of businesses located in low-, moderate-, middle-, and upper-income census tracts.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tract									
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income		
Census Tracts	122	10%	349	28%	415	34%	340	28%	
Census Tracts Penetrated (% of tracts in income group)	64	52%	199	57%	240	58%	288	85%	
Number of Businesses	15,521	7%	61,092	26%	79,061	34%	79,602	34%	
Number of Farms	134	3%	773	20%	1,573	40%	1,406	36%	
Loan Product	#	%	#	%	#	%	#	%	
Small Business	241	8%	536	19%	970	34%	1,109	39%	
Small Farm	0	0%	2	29%	3	43%	2	29%	
Total 1996	241	8%	538	19%	973	34%	1,111	39%	
Small Business	209	7%	597	19%	1,072	34%	1,245	40%	
Small Farm	1	5%	5	26%	7	37%	6	32%	
Total YTD 1997	210	7%	602	19%	1,079	34%	1,251	40%	
Grand Total	451	8%	1,140	19%	2,052	34%	2,362	39%	

Source: Business Demographic Data and bank prepared Small Business and Farm Loan Data Collection Register

*The totals do not include 6 loans to census tracts with a non applicable income designation

The number of business loans made in low- and moderate-income census tracts is reasonable considering the number of businesses located in these areas. Approximately 8% of small business loans were originated in low-income census tracts and 19% were funded in moderate-income census tracts. This is reasonable given that approximately 33% of the total number of businesses are located in low-and moderate-income census tracts.

The previous table shows the bank has penetrated just over 50% of all low- and moderate-income census tracts in its combined assessment areas. However, this is attributed to the size of the Houston assessment area. This assessment area is very large and cannot be reasonably served by Frost's branch network. If you take out the Houston assessment area, Frost has penetrated 85% and 72% of low- and moderate-income census tracts, respectively. An analysis of the bank's lending patterns is discussed in the evaluation for each assessment area.

Frost's 1996 market share in low- and moderate-income census tracts equals 9.4% and 4.9%, respectively. Frost ranks third in market share to low-income census tracts and sixth in originations to moderate-income census tracts for 1996. Frost's loan volume in low-income census tracts is excellent considering its market share in these tracts exceeds its overall market share. However, Frost's loan volume in moderate-income census tracts is lower than its overall market share.

The following chart shows Frost's overall market share to small businesses with revenues less than \$1 million. It also shows the market share and rank for small business and farm loans made in low- and moderate-income census tracts.

1996 Small Business/Farm Loan Origination Market Share Loans to Businesses with less than \$1 million in annual revenues Within the Assessment Area by Income Level of the Census Tract									
Loan Product	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Small Business	1,877	6.20%	4	127	9.43%	3	317	4.96%	6
Small Farm	6	1.06%	11	0	0%	NA	1	.80%	12
1996 Totals	1,883	6.11%	4	127	9.38%	3	318	4.88%	6

Source: Small Business Aggregate Data

Home Mortgage Loans

A review of residential lending patterns from January 1, 1996 through December 31, 1997, shows very good lending volume to low- and moderate-income census tracts. Frost's lending patterns are very good considering the number of 1-4 family units, the percentage of rental units, the percentage of households below the poverty rate, its overall market share, and other lender activity in these tracts. The following chart shows residential lending patterns by the income level of the census tracts located within the assessment areas.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Census Tracts									
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income		
Census Tracts	122	10%	349	28%	415	34%	340	28%	
Census Tracts Penetrated (% of tracts in income group)	44	36%	165	47%	249	60%	294	86%	
Number of 1-4 Family Units	121,527	7%	396,984	24%	575,734	35%	540,152	33%	
Median Year Built of Housing	1959		1964		1973		1976		
Loan Product	#	%	#	%	#	%	#	%	
Home Purchase/Refi	46	5%	126	13%	248	26%	543	56%	
Home Improvement	42	5%	123	14%	258	30%	450	52%	
Total 1996	88	5%	249	14%	506	28%	993	54%	
Home Purchase/Refi	21	3%	106	14%	191	25%	439	58%	
Home Improvement	31	4%	117	16%	214	30%	354	49%	
Total 1997	52	4%	223	15%	405	27%	793	54%	
Grand Total	140	4%	472	14%	911	28%	1,786	54%	

Source: U.S. Census Demographic Data and HMDA Loan Application Registers

* The totals do not include 1 loan in a census tract with a non applicable income designation

The bank made approximately 4% of home related loans to low-income census tracts and 14% to moderate-income census tracts. The bank's lending volume in low- and moderate income census tracts compares favorably with 1996 aggregate data that shows all other lenders made approximately 2% and 12% of home related loans to low- and moderate-income census tracts, respectively. Demographic information shows approximately 31% of 1-4 family housing units are located within low-and moderate-income census tracts. Approximately 38% of the units are owner-occupied in low- and moderate-income census tracts versus 54% in middle- and upper-income census tracts. Also, the percentage of households living below the poverty level in low- and moderate-income census tracts is almost three times the percentage of households in middle- and upper-income census tracts. These economic factors may impede opportunities to make home related loans in low- and moderate-income census tracts.

The previous table shows the bank has penetrated less than 50% of all low- and moderate-income census tracts in its combined assessment areas. However, this is attributed to the size of the Houston assessment area. This assessment area is very large and cannot be reasonably served by Frost's branch network. If you take out the Houston assessment area, Frost has penetrated 63% and 73% of low- and moderate-income census tracts, respectively. An analysis of the bank's lending patterns is discussed in the evaluation for each assessment area.

Frost's 1996 market share in low- and moderate-income census tracts equals 2.7% and 1.1%, respectively. Frost ranks fourth in home related loan market share to low-income census tracts and nineteenth to moderate-income census tracts. Frost's loan volume in low-and moderate-income census tracts is very good considering its market share in these tracts exceeds its overall market share.

The following chart shows Frost's overall market share for home purchase/refinance and home improvement loans in its assessment areas. It also shows the market share and rank for home related loans made in low- and moderate-income census tracts.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Census Tract									
Loan Product	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	953	0.58%	49	46	2.24%	9	126	0.74%	40
Home Improvement	848	2.81%	7	42	3.61%	6	123	2.00%	8
1996 Totals	1,801	0.92%	32	88	2.74%	4	249	1.08%	19

Source: HMDA Aggregate Data

Overall, Frost has a relatively small presence in the home purchase/refinance market. However, the bank is a prominent lender in making home purchase/refinance

loans to low- and moderate-income geographies within its combined assessment areas. The bank is a significant lender in the home improvement market for all income groups.

Consumer Loans

A review of Frost's consumer lending patterns from January 1, 1996 through November 30, 1997, shows good lending volume to low- and moderate-income census tracts. Frost's lending patterns are good considering the number of households and the high poverty level in these census tracts. The following chart shows consumer lending patterns by the income level of the census tracts located within the combined assessment areas.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	122	10%	349	28%	415	34%	340	28%
Census Tracts Penetrated (% of tracts in income group)	95	78%	308	88%	391	94%	335	99%
Number of Households	150,765	7%	539,363	26%	765,548	36%	655,301	31%
Loan Product	#	%	#	%	#	%	#	%
Motor Vehicle Loans	206	3%	1,080	17%	2,413	38%	2,671	42%
Student Loans	370	4%	1,731	20%	3,281	38%	3,342	38%
Other Secured Loans	137	5%	533	21%	849	34%	1,014	40%
Other Unsecured Loans	175	5%	480	13%	1,233	33%	1,824	49%
Total 1996	888	4%	3,824	18%	7,776	36%	8,851	41%
Motor Vehicle Loans	292	4%	1,356	18%	3,051	40%	3,005	39%
Student Loans	423	4%	1,946	20%	3,437	36%	3,817	40%
Other Secured Loans	188	7%	543	21%	854	32%	1,048	40%
Other Unsecured Loans	270	6%	624	13%	1,419	30%	2,367	51%
Total YTD 1997	1,173	5%	4,469	18%	8,761	36%	10,237	42%
Grand Total	2,061	4%	8,293	18%	16,537	36%	19,088	42%

Source: U.S. Census Demographic Data and bank prepared Consumer Loan Data Collection Registers

* Totals do not include 10 loans in census tracts with a non applicable income designation

Frost's consumer loan volume to low- and moderate-income census tracts equals 4% and 18%, respectively. Lending activity in these tracts is good considering the number of households in these areas. Approximately 33% of the number of households have residences in low- and moderate-income census tracts. As noted in the home related analysis, low- and moderate-income census tracts have a poverty rate that is approximately three times greater than in middle- and upper-income census tracts. This may impede consumer loan opportunities in these census tracts.

Distribution by Borrowers' Income within the Assessment Area

Small Business and Small Farm Loans

Frost has been responsive to small business/farm credit needs within its assessment areas. The following chart shows Frost's willingness to make loans of varying sizes and to businesses of different revenue levels.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Loan Size and Business Revenues								
Loan Size				Annual Revenues < \$1 Million				
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	4,744	79%	\$147,181	26%	3,336	70%	\$98,438	67%
\$100,000 to \$250,000	699	12%	\$121,969	22%	375	54%	\$63,082	52%
\$250,000 to \$1,000,000	561	9%	\$297,217	52%	204	36%	\$100,653	34%
Totals	6,004	100%	\$566,367	100%	3,915	65%	\$262,173	46%
Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of the Business or Farm:				=< 1 Million 73 % > 1 Million 9 % Unknown 18 %	*As a percentage of loans of the size category			

Source: Business Demographic Data and bank prepared Small Business and Farm Data Collection Register

Overall, the bank's loan volume to small businesses is good. As noted in the above chart, the majority of the number of small business loans have been to businesses with revenues of less than \$1 million. Also, the bank originates the substantial majority of its business and farm loans for loan amounts of \$100,000 or less, amounts typically needed by small businesses and farms. Frost's performance is reflective of the demographic make up of the combined assessment areas. The combined assessment areas are comprised of 73% small businesses with revenues less than \$1 million. Approximately 65% of small business loans were to companies with revenues less than \$1 million. Also, the bank's market share of small business loans to businesses with revenues less than \$1 million is greater than its overall market share to businesses of all revenue sizes.

Home Mortgage Loans

Frost originates home related loans to individuals and families of different income levels. Frost's distribution of loans to low-and moderate-income borrowers is good considering the percentage of low-income households above the poverty rate, its overall market share, and other lender activity in these census tracts. The following table reflects the distribution of HMDA reportable loans from January 1, 1996 through December 31, 1997. For comparison, the chart also presents the distribution of families living in the assessment areas according to their income level.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	335,258	22%	250,216	17%	302,211	20%	606,841	41%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase/Refi	62	7%	137	14%	150	16%	597	63%
Home Improvement	63	7%	125	15%	152	18%	519	60%
Total 1996	125	7%	262	15%	302	17%	1,116	62%
Home Purchase/Refi	37	6%	94	16%	79	13%	393	65%
Home Improvement	73	12%	88	14%	98	16%	368	59%
Total 1997	110	9%	182	15%	177	14%	761	62%
Grand Total	235	8%	444	15%	479	16%	1,877	62%

Source: US Census Demographic Data and HMDA Loan Application Registers

* The totals do not include 275 loans to borrowers with unknown incomes

The bank's loan volume to low-income borrowers compares favorably with 1996 aggregate data that shows all other lenders made approximately 6% of home related loans to low-income borrowers. Frost made 8% of home related loans to low-income borrowers for the time period noted above. Low-income families account for 22% of all families residing in the assessment areas. However, low-income households above the poverty level represent approximately 6% of all households. The large percentage of low-income households with incomes below the poverty level may impede home loan opportunities.

The overall distribution of loans to moderate-income borrowers is reasonable when compared to the income characteristics and other lenders in the combined assessment areas. The percentage of home related loans to moderate-income borrowers is slightly lower than other lenders. Aggregate data for 1996 shows that other lenders made approximately 17% of home related loans to moderate-income borrowers. Frost made approximately 15% of home related loans to moderate-income borrowers for the time period noted above. Moderate-income families account for 17% of all families residing in the assessment areas.

The following chart shows Frost's overall market share in home purchase/refinance and home improvement loans originated within its assessment areas. It also shows market share and rank for HMDA originations to low- and moderate-income borrowers.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Borrower									
Loan Product	All Borrowers			Low-Income Borrowers			Mod-Income Borrowers		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	953	0.58%	49	62	.97%	30	137	0.64%	43
Home Improvement	848	2.81%	7	63	2.14%	9	124	2.51%	7
Total	1,801	0.92%	32	125	1.34%	19	261	1.00%	29

Source: HMDA Aggregate Data

Overall, Frost is not a prominent lender in the home purchase/refinance market in its combined assessment areas. However, Frost's home purchase/refinance market share to low- and moderate-income borrowers exceeds its overall market share. The bank is a major home improvement lender, however, the bank's market share to low- and moderate-income borrowers is less than its overall market share for this product.

Consumer Loans

Frost originates consumer related loans to individuals and families across economic lines. The following table reflects the distribution of consumer reportable loans from January 1, 1996 through November 30, 1997. For comparison, the chart also presents the distribution of families living in the assessment areas according to their income level.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Borrower									
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income		
Characteristics of Families	335,258	22%	250,216	17%	302,211	20%	606,841	41%	
Characteristics of Households	503,511	24%	339,578	16%	394,062	19%	873,826	41%	
Loan Product	#	%	#	%	#	%	#	%	
Motor Vehicle Loans	663	11%	1,156	19%	1,334	21%	3,074	49%	
Other Secured Loans	183	16%	251	22%	269	23%	462	40%	
Other Unsecured Loans	430	13%	584	18%	642	19%	1,672	50%	
Total 1996	1,276	12%	1,991	19%	2,245	21%	5,208	49%	
Motor Vehicle Loans	977	13%	1,515	20%	1,624	22%	3,437	46%	
Other Secured Loans	309	20%	335	21%	309	20%	614	39%	
Other Unsecured Loans	505	12%	794	19%	760	18%	2,100	50%	
Total YTD 1997	1,791	13%	2,644	20%	2,693	20%	6,151	46%	
Grand Total	3,067	13%	4,635	19%	4,938	21%	11,359	47%	

Source: U.S. Census Demographic Data and bank prepared Consumer Loan Data Collection Registers

* The totals do not include 21,990 loans to borrowers with unknown incomes (student loans make up 18,350 of these loans)

Loans to low-income borrowers represent 13% of consumer related loan volume for the time period noted above. Low-income households account for 24% of all households residing in the assessment areas. The percentage of loans made to low-income borrowers is reasonable considering approximately 16% of the households have incomes below the poverty level. As previously noted, low-income households with incomes above the poverty level comprise approximately 6% of all households.

The overall distribution of loans to moderate-income borrowers is very good when compared to the income characteristics of the assessment areas. Loans to moderate-income borrowers represent 19% of consumer related loan volume for the time period reviewed. Moderate-income families account for 17% of all families residing in the assessment areas.

Community Development Lending

Overall, Frost originated an adequate number of community development loans based on the opportunities available within its assessment areas. Community development loans are those loans whose primary purpose meets the definition of community development lending contained in the CRA regulation and that have not been considered in the review of small business, small farm, home mortgage, or consumer loans.

Frost originated 78 community development loans totaling \$13.8 million since the last CRA examination. Most of the number and dollar amount of the loans were for the purpose of providing affordable housing. The loans were distributed among two of six assessment areas. The San Antonio Metropolitan Area accounts for the largest volume of community development loans with 60% of the number and 79% of the dollar volume. The Houston Metropolitan Area accounts for the remainder with 40% of the number and 21% of the dollar volume. The volume of qualified community development loans made in the other assessment areas is nonexistent. However, the bank derives most of its deposit base from both the San Antonio and Houston areas.

Product Innovation and Flexibility

Frost uses innovative and flexible underwriting guidelines to meet the credit needs of both individuals and small businesses. The loan programs are geared to increase the volume of loans originated to low-and moderate-income individuals and small businesses. Frost often leverages its loan programs with public monies to maximize home ownership opportunities for low-and moderate-income families and individuals. The bank meets the credit needs of low- and moderate-income families and small businesses primarily through its Progress Loan Program. This program offers mortgage, home improvement, and commercial loans designed to help low- and moderate-income borrowers, small businesses, and low- and moderate-income neighborhoods. Loans made in these programs were evaluated elsewhere in the CRA Performance Evaluation under the lending test for small business and mortgage loans. Examples of loan products with flexible and/or innovative loan criteria follow:

Progress Mortgage Loan Program - This is a loan pool created to help low- and moderate-income families who do not qualify for financing under traditional lending standards become homeowners. The mortgage loan program is offered in all of the bank's assessment areas. The features of the program include a low down payment requirement of five percent, expanded debt/income ratios (33% front end and 41% back end ratio), and no lender fees. Also, the bank uses flexible criteria to evaluate prior credit history requirements. The bank will accept prior payment history on utilities and rent in lieu of a traditional credit history. The bank originated 340 loans totaling approximately \$15 million in 1996 and 1997.

Progress Home Improvement Loan Program - This program offers reduced interest rates and expanded loan terms to make payments affordable to low- and moderate-income borrowers. Also, the program offers a low minimum loan amount of \$500. Frost originated 290 loans totaling approximately \$1.4 million in 1996 and 1997.

Progress Commercial Loan Program - This program offers special pricing and waives commitment and other lender fees. The program is available to businesses with annual sales less than \$1 million located in low- and moderate-income census tracts. The maximum loan amount under the program is \$100 thousand. The loan amount is limited in order to specifically target smaller businesses.

Progress Interim Construction Loan Program - This program offers special pricing and waives commitment fees. It is designed for commercial or residential properties located in low- and moderate-income areas or for residences to be constructed for low- and moderate-income families. Frost originated 19 loans totaling \$804 thousand under this program in 1996 and 1997.

FHA and VA Home Mortgage Loans - The bank offers these government mortgage loan products which are sold in the secondary market. The programs offer low down payment requirements that assist buyers who lack the necessary funds to buy a new home. Also, the programs offer flexible debt/income ratio requirements. Frost originated 69 FHA loans totaling \$4.3 million in 1996 and 1997. Also, Frost originated 20 VA loans totaling \$1.5 million in 1996 and 1997.

Small Business Administration (SBA) Lending

Frost is designated as a "preferred" lender with the SBA. The preferred lender status has been achieved in all markets except McAllen. This designation further streamlines the approval process for small business applicants. The bank originated 28 loans totaling \$4.4 million in 1996 and 35 loans totaling \$6 million in 1997. Approximately 75% of the bank's SBA loan volume has been in the San Antonio and Houston markets.

Examples of special mortgage loan programs for various housing development projects targeting low- and moderate-income areas or borrowers are detailed as follows:

St. Phillips Village - This neighborhood is located on the East side of San Antonio. St. Phillips Village is a Planned Unit Development of 14 homes surrounding an inner

pavilion and playground. Eligible borrowers received a soft-second mortgage totaling \$19 thousand. Frost established its loan amount based on the amount of the sales price plus closing costs so that borrowers would have very little up-front costs. Frost also waived the lender fees normally to be paid by the seller (the non-profit developer) in order to help lower the sales price of the homes. Frost Bank made 9 home purchase loans in this project for 1996 and 1997.

Coliseum Oaks, Villas de Esperanza, Claude W. Black/Cherry Street - These low- and moderate-income neighborhood subdivision developments were created through private/public partnerships involving the City of San Antonio, the Greater San Antonio Builders Association, non-profit groups, and several lending institutions. A special interest free second lien was made available to potential low- and moderate-income buyers. Frost Bank permitted the second lien funds to support down payment and closing costs so that the borrower's investment could be as little as the cost of a credit report and appraisal (approximately \$450). Frost waived all lender fees required to be paid by the seller in order to help lower the sales price of the homes. Coliseum Oaks is a 59 unit subdivision located on the East side of San Antonio. Frost Bank funded 20 first mortgage loans in 1996 and 1997 to support this project. A Parade of Homes was held in February of 1997 to open Villas de Esperanza, a 53 unit subdivision on the Westside of San Antonio. Frost financed 10 homes in this project during 1997. In the Fall of 1997, the Claude W. Black/Cherry Street subdivision was opened with a 3rd Parade of Homes. It is a 22 lot subdivision and Frost has financed one loan in the development.

San Antonio Development Agency - The San Antonio Development Agency has several programs involving the development of land for new home construction in San Antonio's inner city. In many cases funding is available through various public sources to assist with down payment and closing costs as well as provide subsidies to make the homes affordable to the buyer. Frost Bank permits their loan amount to be established based on the amount of the sales price plus closing costs less the soft second so that the borrower's up front investment could be as little as the costs of the credit report and appraisal (\$450). Frost also waives the lender fees to help keep the costs down for the buyer. Frost financed 10 new homes in conjunction with San Antonio Development Agency affordable housing developments in 1996 and 1997.

Neighborhood Housing Services - This is a non-profit organization whose mission is to improve the quality of life of residents in targeted neighborhoods by promoting revitalization through home ownership and rehabilitation. Utilizing funds from various federal and local programs, NHS began new construction in the San Antonio MSA in 1994. NHS's public funds can provide soft second mortgages or low-interest rate loans to bring the sales price to an affordable level. The bank's loan amount is established based on the amount of the sales price plus closing costs less the amount granted to the borrower by NHS. Frost Bank made 20 home loans to NHS buyers in 1996 and 1997.

COPS/Metro Alliance - Communities Organized for Public Service (COPS) was organized in 1974 to improve the infrastructure in low- and moderate-income neighborhoods in San Antonio's West side. Today, COPS and Metro Alliance, a sister organization formed later to focus on San Antonio's East side, sponsor a wide variety of programs involving community development, economic development, job training, and youth and education. The organizations focus on empowering residents to initiate changes and improvements in their neighborhoods located on the east, west, and south sides of San Antonio. Frost, along with four other banks, is partnering with the COPS/Metro Alliance to make home improvement and mortgage loans to families identified and counseled by the organization. Frost has worked with COPS/Metro to create a special mortgage product tailored towards meeting the special needs of COPS/Metro Alliance clients. This product includes low down payment and closing costs, credit flexibility when evaluating medical and trade school delinquencies, and consistent earnings over an 18 month period will be evaluated instead of length of employment with one employer. Furthermore, participating lenders have committed to provide unsecured loans to applicants who have no other resource for obtaining the down payment and closing costs. The only requirement is that the applicants have saved \$1,500 and qualify for an additional loan payment. Frost has funded 11 home mortgage loans under this program in 1996 and 1997.

The following are examples of special loan programs geared to meet the credit needs of small businesses in the bank's assessment areas:

San Antonio Business Development Fund - The bank is a Level 1 investor in the San Antonio Business Development Fund (SABDF), a multi-bank community development corporation which provides gap financing to small businesses that do not qualify for a traditional loan at a bank. There are a total of 20 investor banks in the SABDF. The primary emphasis is on small businesses owned by minorities and women and the creation and retention of jobs, with focused consideration for low- and moderate-income residents. SABDF relies on its investor banks to bring in loan requests that require gap financing. Frost has originated 9 loans under this program. SABDF's loans totaling \$369 thousand have been leveraged with Frost loans totaling \$786 thousand.

Kelly Airforce Base (KAFB)

Frost Bank is a member of a consortium of lenders offering special financing for small businesses with annual sales less than \$5 million that perform work with the redevelopment of Kelly AFB or that are located within a five mile radius of the center of Kelly. Frost offers loans with special pricing to finance contracts, accounts receivable, equipment, inventory, leasehold improvements, and other needs. This program recognizes the need to support new endeavors that will keep the area surrounding Kelly a vital part of San Antonio's economy and community. Frost made four loans totaling \$965 thousand under the program in 1996 and 1997.

Women's Enterprise Loan Program

Frost Bank provides micro/start-up loans to low-income women who are referred by the Women's Enterprise. This is a non-profit organization whose mission is to help low-income women establish their own businesses and become financially self-sufficient. During 1996 and 1997, Frost made two loans totaling \$7 thousand under the program.

INVESTMENT TEST

Qualifying investments are investments, deposits, membership shares or grants that have as their primary purpose community development, as defined in the CRA regulation. Based on information provided by the bank, Frost has 63 qualifying community development investments, donations and equity holdings totaling \$1,155,662. Most of these are expense items and represent approximately 1% of the bank's net income for 1996 and 1997. Almost all of these investments directly benefit the bank's assessment areas. Included in this total are items acquired through mergers and acquisitions of other banks.

Types of Investments		
Type of Investment	Number	Amount
Equity Investments	5	595,300
Grants/Donations	58	560,362
TOTAL INVESTMENTS	63	\$1,155,662

Frost has invested \$230,000 in the San Antonio Business Development Fund. This is a Community Development Corporation (CDC) which provides gap financing to small businesses. The bank has invested \$25,000 in the Austin CDC which serves the same purpose. A similar investment of \$63,500 in Houston (MESBIC Financial Corporation of Houston) assists in providing financing to minority and women-owned small businesses. A \$125,000 investment in the Corpus Christi Development Corporation seeks to provide aid for affordable housing needs.

Donations have been extended in all of the bank's assessment areas. The majority benefits the San Antonio assessment area. The bank has qualified investments totaling \$487,781 or 87% of the total CRA related donations in the San Antonio market. These items are responsive to identified credit needs and provide assistance in several areas including small business financing, affordable housing and revitalization of low- and moderate- income geographies. The bank's extensive responsiveness to community credit needs is evidenced by the number of donations during the review period.

Although the bank has an adequate level of qualified community development donations and equity investments, additional opportunities for traditional investments that have a positive impact on the bank's assessment areas may exist. Additionally, some assessment areas are better served than others and may present opportunities for improving the level of investments in those assessment areas.

SERVICE TEST

Retail Banking Services

The quantity, quality and accessibility of the bank's service-delivery systems are satisfactory on an overall basis. The bank provides a very reasonable range of services through its office locations and ATM network. Frost has 54 full-service branches including its main office and 64 ATM locations in its San Antonio, Houston, Austin-San Marcos, Corpus Christi, McAllen, and Boerne assessment areas. There are six motor bank facilities, either attached to or in close proximity to full-service offices and one stand-alone motor bank facility. Non-proprietary ATM services are also available with no terminal fees at 66 HEB and Pantry Food store locations throughout the bank's assessment areas. This brings the total ATM locations accessible by Frost customers with no terminal fees to 130.

Frost has twelve branches located in low- and moderate-income census tracts. Approximately 11% of Frost branch locations are in low-income census tracts. This compares well with demographic information that shows 10% of the census tracts are low-income. Approximately 11% of Frost branches are located in moderate-income census tracts which is low compared to demographic information that shows 28% of census tracts are moderate income. However, fifteen branches are located in census tracts that are adjacent to low- and moderate-income census tracts. The highest percentage of branches are located in middle- and upper-income census tracts comprising 35% and 43% of the bank's branch network, respectively.

The following table illustrates how Frost's branch network and proprietary and non-proprietary ATM network reflects, in general, the income distribution of the area's population and geographies.

Distribution of Delivery System By Income Level of the Census Tracts								
Community Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	122	10%	349	28%	415	34%	340	28%
Families	335,258	22%	250,216	17%	302,211	20%	606,841	41%
Type of Service								
Full Service Offices	6	11%	6	11%	19	35%	23	43%
Proprietary ATM's	7	11%	10	15%	22	33%	26	41%
Non-proprietary ATM's	4	6%	11	17%	25	39%	25	39%
Stand-alone Motor Bank	0	0%	0	0%	1	100%	0	0%
Totals	17	9%	27	15%	67	36%	74	40%

Source: Bank Internal Records

The bank has opened eight branches since the prior examination: two in the San Antonio assessment area, four in the Houston assessment area, and one each in the Corpus Christi and McAllen assessment areas. In the San Antonio assessment area, both branches were located in upper-income tracts. In the Houston area, one branch was opened in a moderate-income census tract, two in middle-income tracts, and one in an upper-income tract. Offices opened in the Corpus Christi and McAllen assessment areas were in upper-income census tracts. One facility in San Antonio was relocated from a middle-income census tract to an upper-income census tract. The move was to a larger facility with drive-through lanes to better serve its customers in this area.

Two branches were closed since the last examination; one in Houston located in an upper-income census tract and one in Ingleside (Corpus Christi assessment area) located in a middle-income census tract. Decisions on branch closings are guided by the branch closing policy and based on several factors including impact on the area and alternative service delivery systems.

A variety of bank services are offered and there is little variance among office locations. In addition to loan and deposit account information, several services are offered by telephone and on-line, including funds transfers, stop payment orders, and check reorders. Additionally, Frost offers ReadyBank Touchtone Bill Pay Service. This service allows customers to pay bills without writing a check. Customers can use their touch tone phone or computer to use this service. 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.

Frost offers several checking account products to meet the needs of low- and moderate-income residents, the elderly, and small business/nonprofit institutions. These accounts include the Budget Checking account, Advantage 50 account, and the Business Budget checking account. The accounts offer low minimum balances and minimal service charges.

Overall accessibility is enhanced by alternative delivery systems available to all customers. They include the 130 ATM locations, toll-free telephone banking, consumer loan applications by phone and mail, and personal and commercial banking by computer.

Community Development Services

Frost provides a good level of financial services with the primary purpose of community development in its six assessment areas. The bank provides technical assistance and financial expertise in securing donations and other assistance for nonprofit organizations that serve low- and moderate-income families and geographies. Examples include:

Home Buyer Education Programs - Bank officers are active in providing home ownership counseling and financial planning to individuals and groups, primarily focusing on low- and moderate-income persons and families. Organizations include COPS/Metro Housing Alliance, Neighborhood Housing Services, Fannie Mae, ACORN, and the TSU/Third Ward CDC. Bank officers have participated in numerous counseling sessions with all these organizations.

Habitat for Humanity - The bank has given technical assistance through review of credit reports, reviewing applicant's paperwork for eligibility, counseling families that presently do not qualify for a home loan, and providing mortgage servicing (collection of payments, escrow management, etc.) for permanent loans funded through this housing program.

Small Business Development Programs - Bank employees provide technical expertise through Board involvement in loan and finance committees of the San Antonio Business Development Fund. Frost employees conduct seminars for small businesses focusing on the development of business plans and credit requirements through the Small Business Lending Forum and the Banker's Entrepreneurial Success Training Program. Bank employees also act as mentors for minority small business clients through the Economic Development Group of Entrepreneurs.

Educational Programs - Bank employees have conducted basic banking and credit management seminars to school age children and college students. Seminars are conducted through schools, churches, and other community forums in predominantly low- and moderate-income areas.

Revitalization or Stabilization Activities - Frost personnel worked with the Committee for Better Schools to help generate support for a bond issue to completely renovate the "inner city" San Antonio ISD schools. Efforts included assistance in developing/pricing the bond issue itself, fund raising for operations, and acting as custodian for committee accounts.

Fair Lending Review

Our concurrent fair lending examination did not detect any evidence of discriminatory or other illegal credit practices.

Metropolitan Areas

Description of Institution's Operations in the San Antonio Metropolitan Area

Frost has defined the entire San Antonio MSA as its assessment area. Frost operates eighteen full service branches, eight free standing ATMs, and has thirty five non-proprietary ATMs in the MSA. The bank has no branches located in Guadalupe or Wilson counties.

Deposits originating from the San Antonio MSA represent approximately 59% of Frost's total deposits. Local banking competition includes affiliates of large national banking companies, mid-size community banks, and numerous small community banks. 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.

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 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%	2,514	6%	13,575	5%	76,312	23%
Moderate	75	30%	380,060	29%	10,490	25%	69,208	25%	58,062	17%
Middle	88	35%	478,841	36%	16,421	39%	97,210	36%	68,215	20%
Upper	68	27%	368,620	28%	13,134	30%	93,132	34%	136,035	40%
Totals	253	100%	1,324,743	100%	42,559	100%	273,125	100%	338,624	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.

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 HEB Groceries, USAA, 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 approved 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 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.

Discussion of Performance Tests in the San Antonio Metropolitan Area

LENDING TEST

Lending Activity

The San Antonio Metropolitan Area (SAMA) accounts for the largest percentage of small business, HMDA, and consumer loan originations bankwide. Approximately 34% of small business loans originated from January 1, 1996 through November 30, 1997, were made in the SAMA. Also, approximately 45% of HMDA and consumer related loans funded in 1996 and 1997 were made in this Metropolitan Area. Lending volume is reasonable considering a large percentage of deposits are also derived from this area. Approximately 59% of the bank's deposits are derived from branches located in the SAMA.

Geographic Distribution of Loans within the San Antonio Metropolitan Area

Small Business and Farm Loans

Frost's geographic distribution of small business/farm loans reflects a good dispersion throughout the San Antonio assessment area. The dispersion of loans is considered good based on the number of businesses and its market share in these census tracts. The following chart shows the number of small business/farm loans originated within the SAMA from January 1, 1996 through November 30, 1997. The chart also displays the number and percentage of businesses located in low-, moderate-, middle-, and upper-income census tracts.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tract								
Assessment Area 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)	21	95%	56	75%	61	69%	66	97%
Number of Businesses	2,514	6%	10,490	25%	16,421	39%	13,134	31%
Number of Farms	17	2%	139	18%	338	43%	293	37%
Loan Product	#	%	#	%	#	%	#	%
Small Business	101	10%	158	15%	375	36%	396	38%
Small Farm	0	0%	1	50%	0	0%	1	50%
Total 1996	101	10%	159	15%	375	36%	397	38%
Small Business	54	5%	170	17%	378	37%	415	41%
Small Farm	0	0%	0	0%	0	0%	1	100%
Total YTD 1997	54	5%	170	17%	378	37%	416	41%
Grand Total	155	8%	329	16%	753	37%	813	40%

Source: Business Demographic Data and bank prepared Small Business and Farm Loan Data Collection Register

Approximately 8% of small business loans were originated in low-income census tracts and 16% were funded in moderate-income census tracts. Approximately 31% of the total number of businesses are located within low- and moderate-income census tracts.

Frost's 1996 market share in low- and moderate-income census tracts equals 15.1% and 9.1%, respectively. Frost's loan volume in low-income census tracts is excellent considering its market share in low-income census tracts far exceeds its overall market share. Frost's loan volume in moderate-income census tracts is good considering its market share in these tracts is slightly lower than its overall market share.

The following chart shows Frost's overall market share to small businesses with revenues less than \$1 million. It also shows the market share and rank for small business and farm loans made in low- and moderate-income census tracts.

1996 Small Business/Farm Loan Origination Market Share Loans to Businesses with less than \$1 million in annual revenues Within the Assessment Area by Income Level of the Census Tract									
Loan Product	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Small Business	583	10.1%	3	41	15.1%	3	97	9.3%	3
Small Farm	1	.7%	7	0	0%	NA	0	NA	NA
1996 Totals	584	9.9%	3	41	15.1%	3	97	9.1%	3

Source: Small Business Aggregate Data

Home Mortgage Loans

A review of Frost's residential lending patterns from January 1, 1996 through December 31, 1997, shows excellent lending volume to low- and moderate-income census tracts. Frost's lending patterns are strong considering the number of 1-4 family units, the percentage of households below the poverty rate, its overall market share, and other lender activity in low- and moderate-income census tracts. The following chart shows residential lending patterns by the income level of the census tracts located within the SAMA.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Census Tracts									
Assessment Area 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)	18	82%	65	87%	74	84%	65	96%	
Number of 1-4 Family Units	26,788	7%	103,372	27%	131,688	35%	117,773	31%	
Median Year Built of Housing	1951		1959		1971		1977		
Loan Product	#	%	#	%	#	%	#	%	
Home Purchase/Refi	24	5%	79	18%	108	24%	239	53%	
Home Improvement	22	6%	79	21%	95	26%	172	47%	
Total 1996	46	6%	158	19%	203	25%	411	50%	
Home Purchase/Refi	9	2%	51	14%	82	23%	220	61%	
Home Improvement	13	5%	62	23%	76	28%	121	44%	
Total YTD 1997	22	3%	113	18%	158	25%	341	54%	
Grand Total	68	5%	271	19%	361	25%	752	52%	

Source: U.S. Census Demographic Data and HMDA Loan Application Registers

The bank made approximately 5% of home related loans to low-income census tracts and 19% to moderate-income census tracts. The bank's lending volume in low- and

moderate income census tracts compares favorably with 1996 aggregate data that shows all other lenders made approximately 2% and 12% of home related loans to low- and moderate-income census tracts, respectively. Demographic information shows approximately 34% of 1-4 family housing units are located within low- and moderate-income census tracts. The percentage of households living below the poverty level in low- and moderate-income census tracts is more than three times the percentage of households in middle- and upper-income census tracts. These economic factors may impede opportunities to make home related loans in low- and moderate-income census tracts.

There are no conspicuous gaps in Frost's home related loan activity in the SAMA. The percentage of low- and moderate-income census tracts with HMDA loan activity is in line with the percentage of middle- and upper income census tracts with loan activity. Low-income census tracts with no HMDA reportable loans from January 1, 1996 through December 31, 1997 were analyzed to determine whether there are home loan opportunities in these areas. Based on 1990 Census Bureau demographic data, the census tracts contain approximately 4,139 housing units; however, only 946 or 23% are owner-occupied. Also, approximately 52% of the residents have incomes below the poverty level. It was concluded that there are very limited opportunities for the bank to make HMDA related loans in these areas.

The following chart shows Frost's overall market share for home purchase/ refinance and home improvement loans in the SAMA. It also shows market share and rank for home related loans made in low- and moderate-income tracts.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Census Tract									
Loan Product	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	450	1.3%	24	24	7.1%	1	79	2.4%	11
Home Improvement	368	5.6%	4	22	8.2%	4	79	5.2%	5
Total	818	2.0%	15	46	7.6%	3	158	3.2%	7

Source: HMDA Aggregate Data

Frost's market share in low- and moderate-income census tracts far exceeds its overall market share. This is indicative of excellent performance in low- and moderate-income census tracts.

Consumer Loans

A review of Frost's consumer lending patterns from January 1, 1996 through November 30, 1997, shows good lending volume to low- and moderate-income census tracts. Frost's lending patterns are good when considering the number of households in these census tracts. The following chart shows consumer lending patterns by the income level of the census tracts located within the SAMA.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tracts								
Assessment Area 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)	22	100%	75	100%	88	100%	68	100%
Number of Households	28,709	6%	116,160	25%	179,835	39%	134,604	29%
Loan Product	#	%	#	%	#	%	#	%
Motor Vehicle Loans	37	2%	265	18%	609	41%	591	39%
Student Loans	222	4%	1,207	20%	2,302	38%	2,267	38%
Other Secured Loans	67	6%	335	28%	394	32%	419	34%
Other Unsecured Loans	41	3%	232	15%	487	32%	776	51%
Total 1996	367	4%	2,039	20%	3,792	37%	4,053	40%
Motor Vehicle Loans	33	3%	168	13%	481	39%	563	45%
Student loans	236	4%	1,367	21%	2,353	36%	2,620	40%
Other Secured Loans	80	7%	305	25%	399	33%	415	35%
Other Unsecured Loans	42	3%	242	15%	470	29%	891	54%
Total YTD 1997	391	4%	2,082	20%	3,703	35%	4,489	42%
Grand Total	758	4%	4,121	20%	7,495	36%	8,542	41%

Source: U.S. Census Demographic Data and bank prepared Consumer Loan Data Collection Registers
 * The totals do not include 3 loans to census tracts that have non applicable income designations

Frost's consumer loan volume to low- and moderate-income census tracts equals 4% and 20%, respectively. Lending activity in these tracts is reasonable considering the number of households in these areas. Approximately 31% of the number of households have residences in low- and moderate-income census tracts.

There are no conspicuous gaps in Frost's consumer related loan activity in the SAMA. All census tracts have consumer loan activity in the San Antonio Metropolitan Area.

Distribution by Borrowers' Income within the San Antonio Metropolitan Area

Small Business and Small Farm Loans

Frost has been responsive to small business credit needs within the San Antonio assessment area. The following chart shows the bank's willingness to make loans of varying sizes and to businesses of different revenue levels.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Loan Size and Business Revenues								
Loan Size				Annual Revenues <= \$1 Million				
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than or equal \$100,000	1,678	82%	\$53,410	28%	1,031	61%	\$31,051	58%
\$100,000 to \$250,000	186	9%	\$32,793	17%	80	43%	\$13,482	41%
\$250,000 to \$1,000,000	185	9%	\$102,638	54%	64	35%	\$33,053	32%
Totals	2,049	100%	\$188,841	100%	1,175	57%	\$77,586	41%
Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of the Business or Farm:				<= 1 Million 74% > 1 Million 8% Unknown 18%		*As a percentage of loans of the size category		

Source: Business Demographic Data and bank prepared Small Business and Farm Data Collection Register

As noted in the above chart, a high percentage of the number and percentage of small business loans had original loan amounts of \$100 thousand or less, and a majority of the number were to small businesses with annual revenues of less than \$1 million. Demographic data reveals that approximately 74% of the businesses located in the SAMA have revenues of less than \$1 million. However, Frost has made a lower percentage of loans to small businesses with revenues less than \$1 million. Frost's overall market share in loans to businesses with annual revenues less than \$1 million actually exceeds its overall market share of small business loans to businesses of all revenue sizes.

Home Mortgage Loans

Frost has made home loans to individuals and families across economic lines. Frost's loan performance to low- and moderate-income borrowers is particularly strong when evaluating poverty rate levels in low- and moderate-income census tracts, 1996 market share data and other lenders performance in the assessment area. The following table reflects the distribution of HMDA reportable loans from January 1, 1996 through December 31, 1997. For comparison, the chart also presents the distribution of families living in the assessment area according to their income level.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Borrower								
Assessment Area 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/Refi	43	10%	82	19%	76	17%	239	54%
Home Improvement	42	12%	58	16%	67	19%	195	54%
Total 1996	85	11%	140	17%	143	18%	434	54%
Home Purchase/Refi	22	7%	48	16%	34	11%	194	65%
Home Improvement	41	17%	39	16%	37	16%	121	51%
Total 1997	63	12%	87	16%	71	13%	315	59%
Grand Total	148	11%	227	17%	214	16%	749	56%

Source: US Census Demographic Data and HMDA Loan Application Registers

*The totals do not include 114 loans to borrowers with unknown incomes

The bank made approximately 11% of home related loans to low-income borrowers and 17% to moderate-income borrowers. The bank's lending volume to low- and moderate income borrowers compares favorably with 1996 aggregate data that shows all other lenders made approximately 6% and 15% of home related loans to low- and moderate-income borrowers, respectively. Demographic information shows approximately 40% of families have low- and moderate-incomes. However, low-income households above the poverty level represent approximately 6% of all households. The large percentage of low-income households with incomes below the poverty level may impede home loan opportunities.

Overall, the bank's lending activity to low- and moderate-income borrowers is excellent when compared to all other home lenders in the SAMA. Frost ranks third in HMDA loans to low- and moderate-income borrowers in 1996. The following chart shows Frost's overall market share in home purchase/ refinance and home improvement loans originated within the San Antonio assessment area. It also shows market share and rank for HMDA related loans originated to low- and moderate-income borrowers.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Borrower									
	All Borrowers			Low-Income Borrowers			Mod-Income Borrowers		
Loan Product	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	450	1.3%	24	43	3.9%	6	82	2.2%	12
Home Improvement	368	5.6%	4	42	7.2%	6	58	6.0%	4
Total	818	2.0%	15	85	5.0%	3	140	3.0%	8

Source: HMDA Aggregate Data

As reflected in the previous table, Frost has excellent loan performance to low- and moderate-income borrowers in the San Antonio Metropolitan Area. This is evidenced through the bank's market share to low- and moderate-income borrowers far exceeding its overall market share.

Consumer Loans

Frost has made consumer loans to individuals and families across economic lines. The following table reflects the distribution of consumer reportable loans from January 1, 1996 through November 30, 1997. For comparison, the chart also presents the distribution of all families and households living in the assessment area according to their income level.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Borrower									
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income		
Characteristics of Families	76,312	23%	58,062	17%	68,215	20%	136,035	40%	
Characteristics of Households	110,323	24%	73,476	16%	86,509	19%	189,000	41%	
Loan Product	#	%	#	%	#	%	#	%	
Motor Vehicle Loans	131	9%	276	19%	313	22%	697	49%	
Other Secured Loans	90	17%	107	20%	128	24%	214	40%	
Other Unsecured Loans	132	10%	222	16%	272	20%	726	54%	
Total 1996	353	11%	605	18%	713	22%	1,637	49%	
Motor Vehicle Loans	157	13%	231	19%	247	20%	589	48%	
Other Secured Loans	104	18%	124	21%	104	18%	246	43%	
Other Unsecured Loans	147	9%	281	18%	292	19%	855	54%	
Total YTD 1997	408	12%	636	19%	643	19%	1,690	50%	
Grand Total	761	11%	1,241	19%	1,356	20%	3,327	50%	

Source: Bank prepared Consumer Loan Data Collection Registers (totals do not include 14,234 loans with unknown incomes)

Approximately 11% of the total number of loans were made to low-income borrowers and 19% were made to moderate-income borrowers for the time period noted above. Low- and moderate-income families account for 23% and 19% of all families, respectively. The bank's distribution of loans to low- and moderate income families is good based on the percentage of families comprising these income categories. As mentioned earlier, low-income households above the poverty level comprises only 6% of all households. This may impede loan opportunities to low-income borrowers.

Community Development Lending

Frost's community development lending activities within the SAMA are good. Overall, San Antonio offers a number of opportunities for bank participation in community development projects. The area has opportunities for local financial institutions to partner with city government and a variety of nonprofit entities to rehabilitate and construct affordable housing in low- and moderate-income areas. Frost is actively involved in various projects through direct loan participation.

Frost originated 46 community development loans with outstanding balances of \$10.9 million since the previous CRA evaluation. The majority of these loans were to contractors that build affordable homes for low-and moderate-income citizens. The bank also makes loans that revitalize and stabilize low- and moderate-income geographies. All of these loans directly benefit the San Antonio Metropolitan Area.

Additionally, the bank participates in a large line of credit to a major manufacturing company located within a low-income census tract in San Antonio, Texas. This line of credit is used to acquire other companies. One acquisition resulted in approximately 90 new manufacturing jobs in San Antonio.

INVESTMENT TEST

Frost has a reasonable level of qualified community development investments in the San Antonio assessment area. The bank has 31 qualified items which represent 49% of the total. These investments total \$867,781 and represent 75% of the total dollar volume. The bank has an equity ownership in 2 organizations. The San Antonio Business Development Fund provides gap financing to small businesses. The RiverCity Capital Corporation provides direct equity investments and debentures in small local businesses. In addition to these organizations, the bank provides donations to several organizations such as: Habitat for Humanity; Neighborhood Housing Services; ACCION Texas, Inc.; Enterprise Foundation; and, the University Health System Development Corporation. The qualified donations assist in providing affordable housing, clinic services, and medical services for low- and moderate-income individuals and families. Also, donations have resulted in the revitalization of low- and moderate-income areas.

The San Antonio assessment area is the bank's largest market. As evidenced by the number and dollar amount of these donations the bank is responsive to the needs of this assessment area.

SERVICE TEST

Delivery systems are accessible to most portions of the San Antonio Metropolitan Area. Frost has no branches located in Guadalupe or Wilson counties. The bank opened two branches since the last examination, both are located in upper-income census tracts. Accessibility was enhanced with the opening of the New Braunfels branch in the northeast corner of the Metropolitan Area. No branches have been closed in the previous two years. Services offered by Frost branches in the San Antonio Metropolitan Area reflect those offered by the overall bank. Services are augmented by an extensive ATM network and telephone and on-line access to loan applications and account transactions.

The following table illustrates how the bank's locations generally reflect the income distribution of the area's population and geographies. All San Antonio Metropolitan Area full service branches have ATMs.

Distribution of Delivery System By Income Level of the Census Tracts in the San Antonio MA								
Community Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	22	9%	75	29%	88	35%	68	27%
Households	28,709	6%	116,160	25%	179,835	39%	134,604	29%
Type of Service	#	%	#	%	#	%	#	%
Full Service Offices	0	0%	2	11%	8	44.5%	8	44.5%
Free Standing ATMs	2	25%	4	50%	0	0%	2	25%
Non-proprietary ATMs*	2	6%	6	17%	13	37%	14	40%
Totals	4	7%	12	20%	21	34%	24	39%

Source: Bank Internal Records

*Numbers shown include ATMs located in HEB or Pantry Food stores and are available to Frost customers with no terminal charges.

Hours of operation in the San Antonio Metropolitan Area are the same in all of the branches. Lobby hours are Monday through Thursday, 9:00 a.m. to 4:00 p.m., Friday, 9:00 a.m. to 5:00 p.m. Motor Bank hours are Monday through Friday, 7:00 a.m. to 6:00 p.m., Saturday, 9:00 a.m. to 1:00 p.m. The New Braunfels branch hours are the same as San Antonio branches. However, motor bank hours on Saturday are 8:00 a.m. to 12:00 p.m. Hours are commensurate with those offered locally by other financial institutions.

The bank provides a reasonable level of community development services in the assessment area. Opportunities are more visible in the San Antonio Metropolitan Area because community development efforts are organized and highly focused, and because the financial institutions are active in competing for these community development opportunities. The bank has developed loan products, marketed loan programs, coordinated, developed, organized, and conducted home buyer education classes, and reviewed loan applications during housing fairs. Frost provides mortgage loan servicing (acceptance of payments, escrow management, etc.) for loans funded in

the area through Habitat for Humanity. The bank actively participates in small business development efforts and provides technical expertise through participation in the San Antonio Small Business Development Fund. Bank employees also provide financial expertise through service on loan and finance committees of the San Antonio Business Development Fund, ACCION Texas, Inc., and Neighborhood Housing Services of San Antonio.

Revitalization and stabilization efforts are reflected in the bank's involvement in the Committee for Better Schools. Financial expertise was provided through fund raising efforts, bond valuation, and account management as the committee worked to have an "inner city" school renovation bond passed.

Description of Institution's Operations in the Houston Metropolitan Area

Frost has defined a portion of the Houston MSA as its assessment area for offices located in the Houston Metropolitan Area. Frost includes both Harris and Fort Bend counties in its assessment area. Frost operates 15 full-service branches and 16 free standing ATMs within the Houston Metropolitan Area. The bank's branches are primarily located in the central and southwest portions of Harris County and the northeast portion of Fort Bend County. Frost has no branches located in the northern or eastern portions of Harris County or in the southern and western portions of Fort Bend County. The Houston assessment area is very large and includes substantial geographies not reasonably served by Frost's branch network.

Deposits originating from the Houston Metropolitan Area represent approximately 15% of Frost's total deposits. In terms of market share (as of June 30, 1997), Frost holds approximately 1.5% (\$618 million) of bank deposits in the assessment area. Local banking competition is aggressive and includes affiliates of large national banking companies, regional banks, numerous small community banks, credit unions and non-bank financial service providers.

Description of the Houston Assessment Area

The Houston assessment area is composed of Harris and Fort Bend Counties. The assessment area includes 631 census tracts. Fourteen of the tracts, representing about 2% 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 Assessment Area.

Demographic Information Houston Assessment Area										
Income Category	By Income Level of the Census Tract								Families by Income Level	
	Census Tracts		Population		Businesses		Owner Occupied Housing			
	#	%	#	%	#	%	#	%	#	%
Low	74	12%	258,517	8%	9,242	7%	31,158	5%	171,805	22%
Moderate	183	30%	821,963	27%	36,668	28%	122,682	21%	126,909	17%
Middle	190	31%	1,002,787	33%	40,106	30%	192,698	33%	155,579	20%
Upper	170	28%	960,290	32%	46,567	35%	240,468	41%	313,955	41%
Totals	617	100%	3,043,557	100%	132,583	100%	587,006	100%	768,248	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.

Description of Performance Tests in the Houston Metropolitan Area

Lending Test

Lending Activity

The Houston Metropolitan Area (HMA) accounts for the second largest percentage of small business loan originations bankwide. Also, the area accounts for the third largest volume of HMDA loans and fourth largest volume of consumer loans bankwide. Approximately 29% of small business loans originated from January 1, 1996 through November 30, 1997, were made in the Houston Metropolitan Area. Approximately 18% of home related loans that were originated from January 1, 1996 through December 31, 1997, were made in the Houston Metropolitan Area. Also, 13% of consumer related

loans funded from January 1, 1996 through November 30, 1997, were made in the Houston Metropolitan Area. Lending volume in the assessment area is reasonable considering the percentage of deposits derived from this area. Approximately 15% of deposits are derived from branches located here.

Geographic Distribution of Loans within the Houston Metropolitan Area

Small Business and Small Farm Loans

The geographic distribution of small business/farm loans reflects a reasonable dispersion throughout the Houston assessment area. The following chart shows the number of small business/farm loans originated within the HMA from January 1, 1996 through November 30, 1997. The chart also displays the number and percentage of businesses located in low-, moderate-, middle-, and upper-income census tracts.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tract									
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income		
Census Tracts	74	12%	183	30%	190	31%	170	28%	
Census Tracts Penetrated (% of tracts in income group)	23	31%	80	44%	80	42%	122	72%	
Number of Businesses	9,242	7%	36,668	28%	40,106	30%	46,567	35%	
Number of Farms	64	4%	358	20%	666	37%	704	39%	
Loan Product	#	%	#	%	#	%	#	%	
Small Business	47	6%	202	25%	193	23%	380	46%	
Small Farm	0	0%	0	0%	1	100%	0	0%	
Total 1996	47	6%	202	25%	194	24%	380	46%	
Small Business	45	5%	202	22%	275	29%	417	44%	
Small Farm	0	??	0	??	0	??	0	??	
Total YTD 1997	45	5%	202	22%	275	29%	417	44%	
Grand Total	92	5%	404	23%	469	27%	797	45%	

Source: Business Demographic Data and bank prepared Small Business and Farm Loan Data Collection Register

*The totals do not include 5 loans made in census tracts with non-applicable income designations

The distribution of small business loans made in low-and moderate-income census tracts is reasonable considering the number of businesses located in these areas. Approximately 5% of small business loans were originated in low-income census tracts and 23% were made in moderate-income census tracts for the time period noted above. This is reasonable given that 35% of the total number of businesses are located within low- and moderate-income census tracts.

Frost's small business loan distribution in low-income census tracts is very good considering its market share in low-income census tracts exceeds its overall market share. Frost's loan volume in moderate-income census tracts is considered reasonable considering its market share in these tracts is slightly lower than its overall market share.

The bank's lending patterns are consistent with its branch network. The bank's branches are primarily located on the west side of Houston which is primarily comprised of middle- and upper-income census tracts. Frost does a good job of lending to low- and moderate-income census tracts in reasonable proximity to its branch locations.

The following chart shows Frost's overall market share for small businesses with revenues less than \$1 million. It also shows the market share and rank for small business and farm loans made in low- and moderate-income census tracts.

1996 Small Business/Farm Loan Origination Market Share Loans to Businesses with less than \$1 million in annual revenues Within the Assessment Area by Income Level of the Census Tract									
	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
Loan Product	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Small Business	567	3.67%	6	27	3.85%	7	107	2.89%	9
Small Farm	1	.57%	17	0	0%	NA	0	NA	NA
1996 Totals	568	3.64%	6	27	3.82%	7	107	2.87%	9

Source: Small Business Aggregate Data

Home Mortgage Loans

A review of residential lending patterns from January 1, 1996, through December 31, 1997, shows reasonable loan distribution to low-and moderate-income census tracts. Frost's lending patterns are reasonable considering the number of 1-4 family units, its branch network, its overall market share, and other lender activity in low- and moderate-income census tracts. The following chart shows residential lending patterns by the income level of the census tracts located within the HMA.

Distribution of Home Mortgage Loan Originations in 1996 And 1997 Within the Assessment Area By Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	74	12%	183	30%	190	31%	170	28%
Census Tracts Penetrated (% of tracts in income group)	14	19%	44	24%	70	37%	130	76%
Number of 1-4 Family Units	70,931	9%	188,068	23%	258,377	32%	287,918	36%
Median Year Built of Housing	1960		1964		1973		1975	
Loan Product	#	%	#	%	#	%	#	%
Home Purchase/Refi	9	5%	12	6%	52	26%	127	64%
Home Improvement	5	3%	11	8%	31	22%	97	67%
Total 1996	14	4%	23	7%	83	24%	224	65%
Home Purchase/Refi	6	3%	33	19%	37	21%	98	56%
Home Improvement	4	4%	12	12%	16	15%	72	69%
Total 1997	10	4%	45	16%	53	19%	170	61%
Grand Total	24	4%	68	11%	136	22%	394	63%

Source: U.S. Census Demographic Data and HMDA Loan Application Registers

* The totals do not include 1 loan made to a census tract with a non applicable income designation

The bank made approximately 4% of home related loans to low-income census tracts and 11% to moderate-income census tracts. The bank's lending volume in low- and moderate income census tracts compares favorably to 1996 aggregate data that shows all other lenders made approximately 2% and 11% of home related loans to low- and moderate-income census tracts, respectively. Demographic information shows approximately 32% of 1-4 family housing units are located within low-and moderate-income census tracts.

Frost's 1996 market share in low-income and moderate-income census tracts equals 1% and .2%, respectively. Frost ranked fourteenth in HMDA related loans to low-income census tracts in 1996. The bank's market share in low-income census tracts exceeds its overall market share. However, the bank's market share in moderate-income census tracts is less than its overall market share. Overall, loan volume in low- and moderate-income census tracts is reasonable when compared to all other home lenders in the Houston market, and when market share in these areas is compared to the overall market share for the bank.

There are contiguous areas without home related loan activity. However, the bank's loan volume is reasonable in census tracts that are in close proximity to the bank's branch network.

The following chart shows Frost's overall market share for home purchase/refinance and home improvement loans in the HMA. It also shows market share and rank for home related loans made in low- and moderate-income census tracts.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Census Tract									
Loan Product	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	201	0.3%	78	9	1.2%	21	12	0.2%	94
Home Improvement	144	1.0%	11	5	0.7%	18	11	0.4%	30
Total	345	0.4%	59	14	1.0%	19	23	0.2%	86

Source: HMDA Aggregate Data

Consumer Loans

A review of consumer lending patterns from January 1, 1996, through November 30, 1997, shows reasonable lending volume to low-and moderate-income census tracts. Frost's lending patterns are reasonable considering the number of households and high poverty rate in these census tracts. The following chart shows consumer lending patterns by the income level of the census tracts located within the HMA.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	74	12%	183	30%	190	31%	170	28%
Census Tracts Penetrated (% of tracts in income group)	47	64%	143	78%	166	87%	167	98%
Number of Households	88,469	8%	285,938	26%	364,240	33%	359,686	33%
Loan Product	#	%	#	%	#	%	#	%
Motor Vehicle Loans	28	4%	105	15%	219	31%	360	51%
Student Loans	20	3%	146	19%	267	34%	344	44%
Other Secured Loans	7	2%	62	14%	114	26%	260	59%
Other Unsecured Loans	17	2%	70	10%	185	25%	460	63%
Total 1996	72	3%	383	14%	785	29%	1,424	53%
Motor Vehicle Loans	45	4%	162	15%	335	32%	509	48%
Student Loans	23	3%	117	15%	249	33%	374	49%
Other Secured Loans	11	3%	43	11%	89	23%	238	62%
Other Unsecured Loans	23	2%	100	10%	266	28%	568	59%
Total YTD 1997	102	3%	422	13%	939	30%	1,689	54%
Grand Total	174	3%	805	14%	1,724	30%	3,113	54%

Source: U.S. Census Demographic Data and bank prepared Consumer Loan Data Collection Registers

*The totals do not include 4 loans made in census tracts with a non applicable income designation

Frost made 17% of its consumer related loans in low- and moderate-income census tracts for the time period noted above. The volume of consumer loans to low- and moderate-income census tracts is relatively low considering the number of households in these areas. However, the 38% poverty rate in low-income census tracts is approximately three times greater than the overall poverty rate in the Houston Metropolitan Area. This may impede consumer loan opportunities in low-income census tracts.

Distribution by Borrowers' Income within the Houston Metropolitan Area

Small Business and Small Farm Loans

Frost has been responsive to small business credit needs within the HMA. The following chart shows the bank's willingness to make loans of varying sizes and to businesses of different revenue levels.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Loan Size and Business Revenues								
Loan Size					Annual Revenues <= \$1 Million			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than or equal \$100,000	1,314	74%	\$45,800	24%	988	75%	\$33,601	73%
\$100,000 to \$250,000	258	15%	\$45,922	24%	142	55%	\$24,082	52%
\$250,000 to \$1,000,000	194	11%	\$100,038	52%	71	37%	\$33,375	33%
Totals	1,766	100%	\$191,760	100%	1,201	68%	\$91,058	47%
Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of the Business or Farm:					= < 1 Million 72 % > 1 Million 9 % Unknown 19%			
					*As a percentage of loans of the size category			

Source: Business Demographic Data and bank prepared Small Business and Farm Data Collection Register

As noted in the above chart, a high percentage of the number of small business loans had original loan amounts of \$100 thousand or less, and a majority of the number were to small businesses with annual revenues of less than \$1 million. Demographic data reveals that approximately 72% of the businesses located in the HMA have revenues of less than \$1 million. Frost's small business lending patterns are consistent with the number of small businesses located within this assessment area. Also, Frost's overall market share in loans to businesses with annual revenues less than \$1 million actually exceeds its overall market share of small business loans to businesses of all revenue sizes.

Home Mortgage Loans

Frost has made home loans to individuals and families of different income levels. Frost's loan performance to low- and moderate-income borrowers is reasonable when evaluating the poverty rate level, 1996 market share data and other lenders performance in the assessment area. The following table reflects the distribution of HMDA reportable loans from January 1, 1996 through December 31, 1997. For comparison, the chart also presents the distribution of families living in the assessment area according to their income level.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	171,805	22%	126,909	17%	155,579	20%	313,955	41%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase/Refi	13	7%	31	16%	28	14%	127	64%
Home Improvement	4	3%	14	10%	25	18%	97	69%
Total 1996	17	5%	45	13%	53	16%	224	66%
Home Purchase/Refi	10	7%	30	22%	15	11%	84	60%
Home Improvement	6	6%	7	7%	15	16%	66	70%
Total 1997	16	7%	37	16%	30	13%	150	64%
Grand Total	33	6%	82	14%	83	15%	374	65%

Source: U.S. Census Demographic Data and HMDA Loan Application Registers

*The totals do not include 51 loans to borrowers with unknown incomes

Approximately 6% of the total number of home related loans were made to low-income borrowers and 14% were made to moderate-income borrowers for the time period reviewed. The bank's loan distribution to low- and moderate-income borrowers is lower than other lenders making home loans in the assessment area. Aggregate data for 1996 shows that other lenders made 7% of loans to low-income borrowers and 18% to moderate-income borrowers. Also, the bank's loan performance to low- and moderate-income borrowers does not compare well with demographic data that shows 22% of all families within the assessment area are low-income and 17% are moderate-income. However, low-income households above the poverty level represent approximately 9% of all households. The large percentage of low-income households with incomes below the poverty level may impede home loan opportunities.

The following chart shows Frost's overall market share in home purchase/ refinance and home improvement loans originated within the Houston assessment area. It also shows market share and rank for home related loans originated to low- and moderate-income borrowers.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Borrower									
Loan Product	All Borrowers			Low-Income Borrowers			Mod-Income Borrowers		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	201	0.3%	78	13	0.4%	60	31	0.3%	73
Home Improvement	144	1.0%	11	4	0.3%	32	14	0.6%	24
Total	345	0.4%	59	17	0.3%	67	45	0.3%	72

Source: HMDA Aggregate Data

Overall, the market share data shows that Frost has a small presence in the Houston Metropolitan Area. The bank's 1996 market share to low- and moderate-income borrowers is slightly lower than its overall market share.

Consumer Loans

Frost has made consumer loans to individuals and families of different income levels. The following table reflects the distribution of consumer reportable loans from January 1, 1996 through November 30, 1997 for the Houston Metropolitan Area. For comparison, the chart also presents the distribution of families living in the assessment area according to their income level.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	171,805	22%	126,909	17%	155,579	20%	313,955	41%
Characteristics of Households	255,285	23%	178,383	16%	211,178	19%	453,487	41%
Loan Product	#	%	#	%	#	%	#	%
Motor Vehicle Loans	83	12%	147	21%	140	20%	316	46%
Other Secured Loans	17	11%	32	21%	30	19%	77	49%
Other Unsecured Loans	50	8%	97	16%	113	19%	345	57%
Total 1996	150	10%	276	19%	283	20%	738	51%
Motor Vehicle Loans	146	14%	232	22%	217	21%	448	43%
Other Secured Loans	43	15%	55	19%	55	19%	143	48%
Other Unsecured Loans	54	7%	128	17%	144	19%	441	57%
Total YTD 1997	243	12%	415	20%	416	20%	1,032	49%
Grand Total	393	11%	691	19%	699	20%	1,770	50%

Source: U.S. Census Demographic Data and bank prepared Consumer Loan Data Collection Registers

*The above totals do not include 2,263 loans to borrowers with unknown incomes (1,540 of these are student loans)

Overall, lending volume to low- and moderate-income borrowers is considered reasonable given the demographic make-up of the Houston Metropolitan Area. The number of consumer loans made to low-income borrowers is relatively low compared to the number of low-income households in the Houston assessment area. However, as noted earlier, low-income households above the poverty level represent approximately 9% of all households. This may impede consumer loan opportunities to low-income households. The number of consumer related loans to moderate-income borrowers is considered excellent compared to the percentage of moderate-income households.

Community Development Lending

Frost has made an adequate number of community development loans based on the opportunities available within the Houston Metropolitan Area. There are many opportunities for financial institutions to participate in community lending projects in this area. The bank has originated 31 community development loans totaling \$2.9 million. The majority of loans were for the purpose of constructing or rehabilitating affordable housing primarily for low-and moderate-income citizens. These loans directly benefit the Houston assessment area.

INVESTMENT TEST

Frost has a marginal level of qualified investments given the opportunities available in the Houston Metropolitan Area. Frost has 13 qualified items which total \$109,422. The bank has an equity investment of \$63,500 in the MESBIC Financial Corporation of Houston. This organization provides financing for minority and women-owned small businesses in Houston and surrounding areas. All of the remaining 12 items are donations which are qualified under the regulation.

SERVICE TEST

Delivery systems are accessible to most portions of the central and southwest portions of Harris County and the northeast portion of Fort Bend County. Frost has no branches located in the northern or eastern portions of Harris County or in the southern and western portions of Fort Bend County. Accessibility has been enhanced with four branches being opened since the last examination; one office was opened in a moderate-income census tract, two were opened in middle-income census tracts, and another was opened in an upper-income tract. One branch was closed since the last examination. As part of an acquisition package, an office in close proximity to an existing Frost office was obtained. That branch was located in an upper-income census tract and was subsequently closed. Services offered by Frost in the Houston Metropolitan Area reflect those offered by the overall bank. Full service branches are reasonably distributed throughout the area and are augmented by an ATM network and telephone and on-line access to loan applications and account transactions.

The following table illustrates how the bank's locations generally reflect the income distribution of the area's population and geographies. All full service offices, except one, have one or more ATMs.

Distribution of Delivery System By Income Level of the Census Tracts in Harris and Fort Bend Counties, Texas								
Community Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	74	12%	183	30%	190	31%	170	27%
Households	88,469	8%	285,938	26%	364,240	33%	359,686	33%
Type of Service	#	%	#	%	#	%	#	%
Full Service Offices	1	7%	2	13%	4	27%	8	53%
Free Standing ATMs	1	6%	2	13%	6	37%	7	44%
Totals	2	7%	4	13%	10	32%	15	48%

Source: Bank Internal Records

Hours of operation in the Houston Metropolitan Area are the same at different branch locations. Lobby hours are Monday through Thursday, 9:00 a.m. to 4:00 p.m., Friday, 9:00 a.m. to 5:00 p.m. Motor Bank hours are Monday through Friday, 7:00 a.m. to 6:00 p.m., Saturday, 9:00 a.m. to 1:00 p.m. Hours are commensurate with those offered locally by other financial institutions.

The bank provides a reasonable level of community development services in the assessment area. Opportunities are more visible the Houston Metropolitan Area because community development efforts are organized and highly focused, and because the financial institutions are active in competing for these community development opportunities. The bank has developed loan products, marketed loan programs, coordinated, developed, organized, and conducted home buyer education classes, and reviewed loan applications during housing fairs. Employees have worked with the Houston Housing Partnership in conducting required seminars for low-income individuals applying for down payment assistance with the City of Houston. The bank has also actively participated in small business development efforts and provided technical expertise to minority small business owners.

Description of Institution's Operations in the Austin Metropolitan Area

The Austin assessment area is composed of the entire Austin Metropolitan Statistical Area. This includes Williamson, Bastrop, Caldwell, Hays, and Travis Counties. The assessment area includes 239 census tracts. Twenty seven of the tracts, representing about 11% 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 Austin Assessment Area.

Demographic Information Austin Assessment Area										
Income Category	By Income Level of the Census Tract								Families by Income Level	
	Census Tracts		Population		Businesses		Owner Occupied Housing			
	#	%	#	%	#	%	#	%	#	%
Low	18	9%	62,704	7%	2,555	7%	6,926	4%	42,935	21%
Moderate	56	26%	220,181	26%	7,884	21%	30,966	19%	35,705	17%
Middle	82	39%	333,481	40%	14,541	38%	72,182	43%	46,091	22%
Upper	56	26%	228,706	27%	13,043	34%	57,010	34%	80,398	39%
Totals	212	100%	845,072	100%	38,023	100%	167,084	100%	205,129	100%
Median Family Income = \$35,481					Median Housing Value = \$78,507					
HUD Adjusted Median Family Income for 1997 = \$48,600					Median Year Built = 1974					

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

Austin, the state capital, has a robust economy. The Austin-San Marcos MSA is the top-ranking area in the State of Texas for job growth. Approximately 12% of all new jobs in the State of Texas were created in the Austin-San Marcos Metropolitan Area in 1997. This exhibits remarkable strength for the Austin area, since its population represents only one-eighteenth of the state's population. Major employment industries include services at 29%, government at 23%, trade at 21%, and manufacturing at 14%.

A review of community contacts conducted within the Austin Metropolitan Area 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 as affordable housing and venture capital loans for small businesses. Overall, community development opportunities in the Austin Metropolitan Area are characterized as good.

Discussion of Performance Tests in the Austin Metropolitan Area

Lending Test

The Austin Metropolitan Area accounts for the second largest percentage of HMDA and consumer related loan originations bankwide. Also, it accounts for the third largest percentage of small business loan originations. Approximately 20% of HMDA and consumer related loans originated during 1996 and 1997 were made in this area. Approximately 18% of small business loans originated in 1996 and year-to-date 1997 were made in this area. Lending volume is more than reasonable considering the amount of deposits derived from this area. Approximately 11% of deposits are derived from branches located here.

Geographic Distribution of Loans within the Austin/San Marcos Metropolitan Area

Small Business and Farm Loans

Frost's geographic distribution of small business/farm loans reflects a good dispersion throughout the Austin/San Marcos assessment area. The following chart shows the number of small business/farm loans originated within the assessment area from January 1, 1996 through November 30, 1997. The chart also displays the number and percentage of businesses located in low-, moderate-, middle-, and upper-income census tracts.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tract								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	18	8%	56	26%	82	39%	56	26%
Census Tracts Penetrated (% of tracts in income group)	10	56%	31	55%	54	66%	49	88%
Number of Businesses	2,555	7%	7,884	21%	14,541	38%	13,043	34%
Number of Farms	37	5%	162	20%	377	46%	239	29%
Loan Product	#	%	#	%	#	%	#	%
Small Business	61	12%	81	16%	202	39%	174	34%
Small Farm	0	0%	1	25%	2	50%	1	25%
Total 1996	61	12%	82	16%	204	39%	175	34%
Small Business	55	10%	87	17%	191	36%	194	37%
Small Farm	1	11%	3	33%	5	56%	0	0%
Total YTD 1997	56	10%	90	17%	196	37%	194	36%
Grand Total	117	11%	172	16%	400	38%	369	35%

Source: Business Demographic Data and bank prepared Small Business and Farm Loan Data Collection Register

*The totals do not include 1 loan made in a census tract with a non applicable income designation

The number of small business loans in low-income census tracts is excellent considering the number of businesses located in these areas. Approximately 11% of small business loans were originated in low-income census tracts. This performance is strong given that 7% of the number of businesses are located in low-income census tracts. Also, 16% of small business loans were funded in moderate-income census tracts for the period reviewed. This performance is reasonable given that 21% of the total number of businesses are located within moderate-income census tracts.

The following chart shows Frost's overall market share to small businesses with revenues less than \$1 million. It also shows the market share and rank for small business and farm loans made in low- and moderate-income census tracts.

1996 Small Business/Farm Loan Origination Market Share Loans to Businesses with less than \$1 million in annual revenues Within the Assessment Area by Income Level of the Census Tract									
Loan Product	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Small Business	388	8.3%	4	43	18.1%	2	64	8.2%	4
Small Farm	4	5.5%	3	0	0%	NA	1	3.9%	2
1996 Totals	392	8.25%	4	43	18.0%	2	65	8.0%	4

Source: Small Business Aggregate Data

Frost is one the leaders in the origination of both small business and small farm loans in the Austin Metropolitan Area. Frost's loan volume in low-income census tracts is excellent considering its market share in these tracts far exceeds its overall market share. Frost's loan volume in moderate-income census tracts is good considering its market share in these tracts is slightly lower than its overall market share.

Home Mortgage Loans

A review of Frost's residential lending patterns from January 1, 1996 through December 31, 1997, shows very good loan distribution to low- and moderate-income census tracts. The bank's lending patterns are very good considering the number of 1-4 family units, the percentage of households below the poverty rate, its overall market share, and other lender activity in low- and moderate-income census tracts. The following chart shows residential lending patterns by the income level of the census tracts located within the Austin Metropolitan Area.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	18	8%	56	26%	82	39%	56	26%
Census Tracts Penetrated (% of tracts in income group)	11	61%	37	66%	65	79%	51	91%
Number of 1-4 Family Units	14,677	6%	56,552	23%	102,904	41%	76,863	31%
Median Year Built of Housing	1968		1970		1976		1977	
Loan Product	#	%	#	%	#	%	#	%
Home Purchase/Refi	11	6%	28	14%	56	29%	101	52%
Home Improvement	14	8%	20	11%	79	44%	67	37%
Total 1996	25	7%	48	13%	135	36%	168	45%
Home Purchase/Refi	5	4%	16	14%	46	39%	51	43%
Home Improvement	12	8%	20	14%	52	36%	61	42%
Total 1997	17	6%	36	14%	98	37%	112	43%
Grand Total	42	7%	84	13%	233	36%	280	44%

Source: U.S. Census Demographic Data and HMDA Loan Application Registers

The bank made approximately 7% of home related loans to low-income census tracts and 13% to moderate-income census tracts. The bank's lending volume in low- and moderate income census tracts compares favorably with 1996 aggregate data that shows all other lenders made approximately 2% and 13% of home related loans to low- and moderate-income census tracts, respectively. Demographic information shows approximately 29% of 1-4 family housing units are located within low- and moderate-income census tracts. The percentage of households living below the poverty level in low- and moderate-income census tracts is more than three times the percentage of households in middle- and upper-income census tracts. These economic factors may impede opportunities to make home related loans in low- and moderate-income census tracts. Also, the percentage of owner-occupied units is 24% for low-income census tracts and 31% for moderate-income census tracts. The percentage of owner-occupied housing in middle- and upper-income census tracts is over 50%. Therefore, opportunities for home related loans are greater in middle- and upper-income census tracts.

The bank made loans in 61% and 66% of low- and moderate-income census tracts, respectively. The penetration percentage in low- and moderate-income census tracts is somewhat lower than middle- and upper-income census tracts at 79% and 91%, respectively. Low- and moderate-income census tracts with no HMDA reportable loans in 1996 and 1997 were analyzed to determine home loan opportunities in these areas. Based on 1990 Census Bureau demographic data, the census tracts contain

approximately 41,043 housing units; however, only 10,302 or 25% are owner-occupied. The very high percentage of rental housing units limits the bank's opportunity to make home loans in these census tracts. However, 1996 market share data shows that other lenders made over 1,000 home related loans in these census tracts in 1996. This indicates that there are ample opportunities to make home related loans in these census tracts. Although Frost does not have loans in these census tracts, as noted earlier, the bank's overall loan volume in low- and moderate-income census tracts is very good.

The following chart reflects Frost's overall market share for home purchase/ refinance and home improvement loans in the assessment area. It also shows market share and rank for home related loans made in low- and moderate-income census tracts.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Census Tract									
Loan Product	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	196	0.5%	59	11	1.3%	22	28	0.6%	54
Home Improvement	180	3.8%	4	14	9.2%	3	20	2.9%	7
Total	376	.80%	33	25	2.54%	7	48	.82%	36

Source: HMDA Aggregate Data

As can be seen through the above chart, Frost is a prominent home improvement lender in the market. However, its overall presence in the home purchase/refinance market is small. Frost's market share in both low- and moderate-income census tracts is excellent considering market share in these tracts exceeds its overall market share.

Consumer Loans

A review of Frost's consumer lending patterns from January 1, 1996 through November 30, 1997, shows good loan distribution to low- and moderate-income census tracts. Frost's lending patterns are good when compared to the number of households and demographics in these census tracts. The following chart shows consumer lending patterns by the income level of the census tracts located within the assessment area.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	18	8%	56	26%	82	39%	56	26%
Census Tracts Penetrated (% of tracts in income group)	18	100%	55	98%	82	100%	55	98%
Number of Households	23,680	7%	86,508	27%	126,144	39%	89,792	28%
Loan Product	#	%	#	%	#	%	#	%
Motor Vehicle Loans	99	5%	400	20%	849	43%	619	31%
Student Loans	101	11%	249	27%	337	37%	223	25%
Other Secured Loans	56	11%	98	19%	218	41%	154	29%
Other Unsecured Loans	110	13%	128	15%	348	40%	275	32%
Total 1996	366	9%	875	21%	1,752	41%	1,271	30%
Motor Vehicle Loans	173	6%	575	22%	1,112	42%	811	30%
Student Loans	139	12%	324	27%	409	35%	312	26%
Other Secured Loans	57	14%	80	19%	163	39%	115	28%
Other Unsecured Loans	137	18%	110	14%	275	35%	259	33%
Total YTD 1997	506	10%	1,089	22%	1,959	39%	1,497	30%
Grand Total	872	9%	1,964	21%	3,711	40%	2,768	30%

Source: U.S. Census Demographic Data and bank prepared Consumer Loan Data Collection Registers

*The totals do not include 1 loan made in a census tract with a non applicable income designation

Frost's loan volume to low-income census tracts is excellent. The bank made approximately 9% of consumer related loans to low-income census tracts while only 7% of the number of households live in these areas. The bank made 21% of consumer related loans to moderate-income census tracts. This percentage is considered reasonable given that approximately 27% of the households reside in these census tracts.

There are no conspicuous gaps in Frost's consumer related loan activity in the Austin Metropolitan Area. All but two census tracts, one in a moderate-income area and one in an upper-income area, have consumer loan activity.

Distribution by Borrowers' Income within the Austin/San Marcos Metropolitan Area

Small Business and Small Farm Loans

Frost has been responsive to small business credit needs within the Austin/San Marcos assessment area. The following chart shows the bank's willingness to make loans of varying sizes and to businesses of different revenue levels.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Loan Size and Business Revenues								
Loan Size				Annual Revenues < \$1 Million				
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	818	78%	\$22,694	22%	640	78%	\$17,234	76%
\$100,000 to \$250,000	130	12%	\$21,940	21%	79	61%	\$13,117	60%
\$250,000 to \$1,000,000	106	10%	\$57,459	56%	42	40%	\$21,215	37%
Totals	1,054	100%	\$102,093	100%	761	72%	\$51,566	51%
Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of the Business or Farm:				=< 1 Million	75%	*As a percentage of loans of the size category		
				> 1 Million	7%			
				Unknown	18%			

Source: Business Demographic Data and bank prepared Small Business and Farm Data Collection Register

As noted in the above chart, a high percentage of the number of small business loans had original loan amounts of \$100 thousand or less, and were to businesses with annual revenues less than \$1 million. This distribution is supported by demographic data that shows 75% of the businesses located in the assessment area have annual revenues of less than \$1 million. Also, the bank's market share to businesses/farms with annual revenues less than \$1 million equals 8.25% which far exceeds its market share to small businesses/farms of all revenue sizes at 5.75%.

Home Mortgage Loans

Frost has made home loans to individuals and families across economic lines. The following table reflects the distribution of HMDA reportable loans from January 1, 1996 through December 31, 1997 for the assessment area. For comparison, the chart also presents the distribution of families living in the assessment area according to their income level.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	42,935	21%	35,705	17%	46,091	22%	80,398	39%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase/Refi	3	2%	16	8%	20	10%	156	80%
Home Improvement	12	7%	35	20%	38	21%	92	52%
Total 1996	15	4%	51	14%	58	16%	248	67%
Home Purchase/Refi	4	4%	6	7%	18	20%	62	69%
Home Improvement	11	9%	20	16%	20	16%	78	60%
Total 1997	15	7%	26	12%	38	17%	140	64%
Grand Total	30	5%	77	13%	96	16%	388	66%

Source: US Census Demographic Data and HMDA Loan Application Registers

*The totals do not include 48 loans to borrowers with unknown incomes

The bank originated 5% of home related loans to low-income borrowers and 13% to moderate-income borrowers. The distribution of loans to low- and moderate income borrowers is reasonable when compared to 1996 aggregate data. This information shows that all other lenders originated 5% of home related loans to low-income borrowers and 15% to moderate-income borrowers in the Austin Metropolitan Area. Demographic information shows that 21% of all families living in the assessment area are low-income and 17% are moderate-income. However, low-income households above the poverty level represent approximately 6% of all households. The high percentage of low-income households living below the poverty level may impede home loan opportunities to this income group.

The following chart reflects Frost's overall market share in home purchase, refinance and home improvement loans originated within the Austin/San Marcos assessment area. It also shows market share and rank for home related loans originated to low-income and moderate-income borrowers.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Borrower									
Loan Product	All Borrowers			Low-Income Borrowers			Mod-Income Borrowers		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	196	0.5%	62	3	0.2%	72	16	0.3%	59
Home Improvement	180	3.8%	4	12	4.3%	6	35	5.7%	4

Total	376	0.8%	33	15	0.9%	32	51	0.9%	32
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Source: HMDA Aggregate Data

The above market share data shows that Frost is one of the leaders among financial institutions making home improvement loans to low- and moderate-income borrowers in the assessment area. Home improvement loan market share to low- and moderate-income borrowers exceeds its overall market share. The bank does not have a major presence in the home purchase/refinance market. Frost's market share in home purchase/refinance loans is lower than its overall market share.

Consumer Loans

Frost has made consumer loans to individuals and families across economic lines. The following table reflects the distribution of consumer reportable loans from January 1, 1996 through November 30, 1997 for the assessment area. For comparison, the chart also presents the distribution of families living in the assessment area according to their income level.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Borrower									
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income		
Characteristics of Families	42,935	21%	35,705	17%	46,091	22%	80,398	39%	
Characteristics of Households	79,173	24%	53,207	16%	59,243	18%	134,502	41%	
Loan Product	#	%	#	%	#	%	#	%	
Motor Vehicle Loans	366	19%	472	24%	463	24%	648	33%	
Other Secured Loans	50	17%	86	30%	73	25%	81	28%	
Other Unsecured Loans	209	26%	189	23%	151	19%	267	33%	
Total 1996	625	20%	747	24%	687	22%	996	33%	
Motor Vehicle Loans	519	19%	677	25%	610	23%	858	32%	
Other Secured Loans	94	30%	67	22%	62	20%	86	28%	
Other Unsecured Loans	168	22%	196	26%	132	17%	268	35%	
Total YTD 1997	781	21%	940	25%	804	22%	1,212	32%	
Grand Total	1,406	21%	1,687	25%	1,491	22%	2,208	33%	

Source: U.S. Census Demographic Data and bank prepared Consumer Loan Data Collection Registers

*The above totals do not include 2,525 loans to borrowers with unknown incomes (student loans comprise 2,095 of these loans)

Frost's consumer related loan volume to low- and moderate-income borrowers is excellent. The bank originated 21% of the total number of consumer loan originations to low-income borrowers. This is in line with demographic information that shows 21% of all families living in the assessment area are low-income. The number of loans originated to moderate-income borrowers equals 25% of the total number of consumer

loan originations. This performance is strong as 17% of all assessment area families have moderate-incomes.

Community Development Lending

Based on information provided by the bank, Frost has not made any community development loans in the Austin assessment area.

INVESTMENT TEST

The bank’s level of investments in the Austin assessment area is relatively low. Frost has 8 qualified items which total \$45,000. The bank has invested \$25,000 in the Austin Community Development Corporation which provides gap financing for small businesses. This \$25,000 is the first of three annual payments which will result in a final investment level of \$75,000.

SERVICE TEST

Delivery systems are accessible to most portions of the Cities of Austin and San Marcos. Frost has no branches located in Bastrop, Caldwell, or Williamson counties. The Austin branches are confined to the area within Loop 360 and U. S. Highway 183. These are major thoroughfares and provide adequate access to most parts of the city. The San Marcos branches are readily accessible to all parts of the city. No branches have been closed in the last two years. Services offered by Frost in the Austin-San Marcos Metropolitan Area reflect those offered by the overall bank. Services are augmented by an extensive ATM network and telephone and on-line access to loan applications and account transactions.

The following table illustrates how the bank’s locations generally reflect the income distribution of the area’s population and geographies.

Distribution of Delivery System By Income Level of the Census Tracts in the Austin-San Marcos MSA								
Community Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	18	9%	56	26%	82	39%	56	26%
Households	23,680	7%	86,508	26%	126,144	39%	89,792	28%
Type of Service	#	%	#	%	#	%	#	%
Full Service Offices	3	37.5%	0	0%	2	24%	3	37.5%
Free Standing ATMs	0	0%	0	0%	0	0%	2	100%
Non-proprietary ATMs*	2	10%	4	19%	8	38%	7	33%
Totals	5	16%	4	13%	10	32%	12	39%

Source: Bank Internal Records
 *Numbers shown include ATMs located in HEB or Pantry Food stores and are available to Frost customers with no terminal charges.

Hours of operation in the Austin Metropolitan Area are the same at different branch locations. Lobby hours are Monday through Thursday, 9:00 a.m. to 4:00 p.m., Friday, 9:00 a.m. to 5:00 p.m. Motor Bank hours are Monday through Friday, 7:00 a.m. to 6:00 p.m., Saturday, 9:00 a.m. to 1:00 p.m. The San Marcos branches' lobby hours are Monday through Thursday, 9:00 a.m. to 3:00 p.m., Friday, 9:00 a.m. to 6:00 p.m., and Saturday, 8:00 a.m. to 12:00 p.m. (Downtown only). Motor Bank hours are Monday through Friday, 7:30 a.m. to 6:00 p.m., and Saturday, 7:30 a.m. to 12:00 p.m. Hours are commensurate with those offered locally by other financial institutions.

The bank provides community development services in the assessment area. Opportunities are more visible in the Austin-San Marcos Metropolitan Area because community development efforts are organized and highly focused, and because the financial institutions are active in competing for these community development opportunities. The bank has developed loan products, marketed loan programs, coordinated, developed, organized, and conducted home buyer education classes, and reviewed loan applications during housing fairs. The bank has also actively participated in small business development efforts and provided technical expertise through participation in the Small Business Lending Forum and the Economic Development Group of Entrepreneurs (a mentoring program for minority small business owners). The bank also conducts general banking and credit management seminars to school age children and college students.

Description of Institution's Operations in the Corpus Christi Metropolitan Area

The Corpus Christi assessment area is composed of the entire Corpus Christi Metropolitan Statistical Area. This includes Nueces and San Patricio counties. The assessment area includes 79 census tracts. Two 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 Corpus Christi Assessment Area.

Demographic Information Corpus Christi Assessment Area										
Income Category	By Income Level of the Census Tract								Families by Income Level	
	Census Tracts		Population		Businesses		Owner Occupied Housing			
	#	%	#	%	#	%	#	%	#	%
Low	8	10%	31,472	9%	1,210	10%	4,192	6%	21,783	21%
Moderate	16	21%	84,750	24%	3,899	32%	16,801	24%	14,395	17%
Middle	26	34%	128,664	37%	4,286	35%	26,896	38%	16,937	22%
Upper	27	35%	104,989	30%	2,876	23%	23,001	32%	36,580	39%
Totals	77	100%	349,875	100%	12,271	100%	70,890	100%	89,695	100%
Median Family Income = \$28,499					Median Housing Value = \$29,762					
HUD Adjusted Median Family Income for 1997 = \$37,800					Median Year Built = 1953					

Corpus Christi's current economic trends are good. The unemployment rate exceeds both the state and national averages, however, the trend is positive. There have been employment increases in the service, retail, and telecommunications industries. Much of the increase is stemming from the influence of oil and gas production and NAFTA. Corpus Christi is the 6th busiest port in the nation based on tonnage shipped. Major economic generators include petrochemicals, tourism, agribusiness, and the military. The petrochemical industry pumps more than \$1 billion into the area economy and provides an estimated 10,000 direct and 38,000 indirect jobs. Corpus Christi and Robstown serve as the regional agri-service center for the Coastal Bend area. The agriculture industry produces commodity sales of approximately \$70 million annually. Corpus Christi is the second most frequented vacation destination in Texas with an estimated 5 million visitors annually.

A review of community contacts conducted within the Corpus Christi Metropolitan Area identified the primary credit needs of the MSA as affordable housing and small business loans. Overall, community development opportunities in the Corpus Christi MSA are characterized as moderate.

Discussion of Performance Tests in the Corpus Christi Metropolitan Area

Lending Test

The Corpus Christi Metropolitan Area (CCMA) accounts for the third largest percentage of consumer related loan originations bankwide. Also, it accounts for the fourth largest percentage of small business and HMDA loan originations. Approximately 13% of consumer and small business related loans originated from January 1, 1996 through November 29, 1997 were made in this area. Approximately 12% of home related loans originated in 1996 and 1997 were made in this area. Lending volume is reasonable considering the amount of deposits derived from the assessment area. Approximately 12% of deposits are derived from branches located here.

Geographic Distribution of Loans within the Corpus Christi Metropolitan Area

Small Business and Farm Loans

Frost's geographic distribution of small business/farm loans reflects a good dispersion throughout the Corpus Christi assessment area. The following table shows the number of small business/farm loans originated within the assessment area from January 1, 1996 through November 30, 1997. The table also displays the number and percentage of businesses located in low-, moderate-, middle-, and upper-income census tracts.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tract								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	8	10%	16	21%	26	34%	27	35%
Census Tracts Penetrated (% of tracts in income group)	7	88%	15	94%	23	88%	24	89%
Number of Businesses	1,210	10%	3,899	32%	4,286	35%	2,876	23%
Number of Farms	16	6%	76	28%	103	37%	81	29%
Loan Product	#	%	#	%	#	%	#	%
Small Business	32	11%	89	31%	107	37%	63	22%
Small Farm	0	0%	0	0%	0	0%	0	0%
Total 1996	32	11%	89	31%	107	37%	63	22%
Small Business	55	12%	126	27%	168	35%	125	26%
Small Farm	0	0%	2	22%	2	22%	5	56%
Total YTD 1997	55	11%	128	27%	170	35%	130	27%
Grand Total	87	11%	217	28%	277	36%	193	25%

Source: Business Demographic Data and bank prepared Small Business and Farm Loan Data Collection Register

The number of small business loans made in low-and moderate-income census tracts is good considering the number of businesses located in these areas. Approximately 11% of small business and small farm loans were originated in low-income census tracts and 28% were funded in moderate-income census tracts for the period reviewed. The distribution of small business loans is considered good given that 42% of the total number of businesses are located within low- and moderate-income census tracts.

There are no conspicuous gaps in Frost's small business related loan activity in the Corpus Christi assessment area. There are only two low- and moderate-income census tracts without loan activity. Also, the percentage of low- and moderate-income census tracts with loan activity is slightly higher than middle- and upper-income census tracts with loan activity.

The following chart shows Frost's overall market share to small businesses with revenues less than \$1 million. It also shows the market share and rank for small business and farm loans made in low- and moderate-income census tracts.

1996 Small Business/Farm Loan Origination Market Share Loans to Businesses with less than \$1 million in annual revenues Within the Assessment Area by Income Level of the Census Tract									
Loan Product	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Small Business	186	12.1%	5	16	11.8%	3	46	10.5%	5
Small Farm	0	0%	NA	0	0%	NA	0	0%	NA
1996 Totals	186	11.6%	5	16	11.7%	3	46	10.0%	5

Source: Small Business Aggregate Data

Frost is among the top five lenders in the origination of small business loans in the Corpus Christi Metropolitan Area. Frost's loan volume in low-income census tracts is very good considering its market share in these tracts about the same as its overall market share. Frost's loan volume in moderate-income census tracts is reasonable considering its market share in these tracts is slightly lower than its overall market share.

Home Mortgage Loans

A review of Frost's residential lending patterns from January 1, 1996 through December 31, 1997 reflects an opportunity to improve its dispersion of lending volume to low- and moderate-income census tracts. This assessment is based on the number of owner-occupied units, other lender activity in census tracts with no Frost activity, and the bank's home improvement loan market share in low- and moderate-income census tracts compared to its overall market share. The following table shows residential lending patterns by the income level of the census tracts located within the assessment area.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	8	10%	16	21%	26	34%	27	35%
Census Tracts Penetrated (% of tracts in income group)	2	25%	10	63%	19	73%	24	89%
Number of 1-4 Family Units	9,131	9%	24,700	24%	39,632	38%	30,776	30%
Median Year Built of Housing	1953		1961		1967		1974	
Loan Product	#	%	#	%	#	%	#	%
Home Purchase/Refi	2	3%	7	10%	20	27%	44	60%
Home Improvement	1	1%	12	9%	42	33%	72	57%
Total 1996	3	2%	19	10%	62	31%	116	58%
Home Purchase/Refi	1	2%	4	7%	16	28%	37	64%
Home Improvement	2	2%	17	14%	45	36%	60	48%
Total YTD 1997	3	2%	21	12%	61	34%	97	53%
Grand Total	6	2%	40	10%	123	32%	213	56%

Source: U.S. Census Demographic Data and HMDA Loan Application Registers

The bank made approximately 2% of home related loans to low-income census tracts and 10% to moderate-income census tracts during the time period noted above. The percentage of lending volume in low- and moderate income census tracts is slightly lower than 1996 aggregate data that shows all other lenders made approximately 2% and 12% of home related loans to low- and moderate-income census tracts, respectively. Demographic information shows approximately 33% of 1-4 family housing units are located within low-and moderate-income census tracts. The percentage of households living below the poverty level in low- and moderate-income census tracts is almost three times the percentage of households in middle- and upper-income census tracts. These economic factors may impede opportunities to make home related loans in low- and moderate-income census tracts.

Low- and moderate-income census tracts without HMDA reportable loans in 1996 and year-to-date 1997 were analyzed to determine whether there are home loan opportunities in these areas. Based on 1990 Census Bureau demographic data, the census tracts contain approximately 17,114 housing units of which 7,392 or 43% are owner-occupied. Also, six of the twelve low- and moderate-income census tracts showing no Frost home lending activity are located in close proximity to a Frost branch. The number of owner-occupied units and the close proximity of Frost branches indicates opportunities to make home related loans in the area. Also, other lenders originated 309 home related loans in low- and moderate-income census tracts with no Frost activity during 1996. Out of the 12 low- and moderate-income census tracts with

no activity, only 2 had less than 10 loans originated by other lenders. However, as previously noted, the high poverty level in low- and moderate-income census tracts may impede home loan opportunities. Approximately 49% of low-income tract households and 30% of moderate-income tract households are below the poverty level.

The following table reflects Frost's overall market share for home purchase/ refinance and home improvement loans in the assessment area. It also shows market share and rank for home related loans made in low- and moderate-income tracts.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Census Tract									
Loan Product	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	73	1.0%	22	2	1.7%	12	7	0.9%	24
Home Improvement	127	10.7%	2	1	1.5%	11	12	4.7%	6
Total	200	2.4%	10	3	1.6%	17	19	1.9%	15

Source: HMDA Aggregate Data

As can be seen in the above table, the bank is a prominent home improvement lender in the Corpus Christi Metropolitan Area. However, the bank's market share in home improvement loans is much lower in low- and moderate-income census tracts than its overall market share.

Consumer Loans

A review of Frost's consumer lending patterns from January 1, 1996 through November 30, 1997, shows adequate lending volume to low- and moderate-income census tracts. The following table shows consumer lending patterns by the income level of the census tracts located within the assessment area.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tracts								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	8	10%	16	21%	26	34%	27	35%
Census Tracts Penetrated (% of tracts in income group)	8	100%	16	100%	26	100%	26	96%
Number of Households	9,907	8%	25,278	21%	44,755	38%	38,393	32%
Loan Product	#	%	#	%	#	%	#	%
Motor Vehicle Loans	42	4%	162	15%	355	33%	512	48%
Student Loans	27	4%	97	13%	272	37%	348	47%
Other Secured Loans	7	3%	28	12%	84	37%	109	48%
Other Unsecured Loans	7	2%	47	12%	153	38%	193	48%
Total 1996	83	3%	334	14%	864	35%	1,162	48%
Motor Vehicle Loans	41	3%	226	17%	454	35%	583	45%
Student Loans	25	3%	92	13%	289	39%	330	45%
Other Secured Loans	40	8%	105	21%	164	32%	203	40%
Other Unsecured Loans	68	6%	167	15%	351	32%	517	47%
Total YTD 1997	174	5%	590	16%	1,258	34%	1,633	45%
Grand Total	257	4%	924	15%	2,122	35%	2,795	46%

Source: U.S. Census Demographic Data and bank prepared Consumer Loan Data Collection Registers

The bank made approximately 4% of consumer related loans to low-income census tracts and 15% to moderate-income census tracts for the above time period. Consumer loans made to low- and moderate-income census tracts is relatively low when compared to demographic information that shows approximately 29% of households are located within these tracts. However, as noted earlier, approximately 49% and 30% of the households in low- and moderate-income census tracts have incomes below the poverty level, respectively. Low- and moderate-income census tracts contain only 23% of households above the poverty rate. The economic situation of many low-income borrowers may impede consumer loan opportunities in these tracts.

There are no conspicuous gaps in Frost's consumer related loan activity in the assessment area. Frost made consumer related loans in all low- and moderate-income census tracts.

Distribution by Borrowers' Income within the Corpus Christi Metropolitan Area

Small Business and Small Farm Loans

Frost has been responsive to small business credit needs within the Corpus Christi assessment area. The following chart shows the bank's willingness to make loans of varying sizes and to businesses of different revenue levels.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Loan Size and Business Revenues								
Loan Size					Annual Revenues <= \$1 Million			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than or equal \$100,000	631	82%	\$17,722	30%	448	71%	\$10,904	62%
\$100,000 to \$250,000	85	11%	\$14,567	24%	45	53%	\$7,529	52%
\$250,000 to \$1,000,000	58	7%	\$27,620	46%	19	33%	\$8,565	31%
Totals	774	100%	\$59,909	100%	512	66%	\$26,998	45%
Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of the Business or Farm:				=< 1 Million	74 %	*As a percentage of loans of the size category		
				> 1 Million	6 %			
				Unknown	20 %			

Source: Business Demographic Data and bank prepared Small Business and Farm Data Collection Register

As noted in the above table, a high percentage of the number of small business loans had original loan amounts of \$100 thousand or less, and a majority of the number and dollar amount were to small businesses with annual revenues of less than \$1 million. This distribution is supported by demographic data that shows 74% of the businesses located in the assessment area have revenues of less than \$1 million.

Home Mortgage Loans

Frost has made home loans to individuals and families across economic lines. The following table reflects the distribution of HMDA reportable loans from January 1, 1996 through December 31, 1997 for the assessment area. For comparison, the table also presents the distribution of families living in the assessment area according to their income level.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	21,783	24%	14,395	16%	16,937	19%	36,580	41%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase/Refi	3	4%	8	12%	17	25%	40	59%
Home Improvement	4	3%	16	13%	19	15%	87	69%
Total 1996	7	4%	24	12%	36	19%	127	65%
Home Purchase/Refi	1	2%	8	19%	9	21%	25	58%
Home Improvement	15	14%	20	18%	20	18%	56	50%
Total YTD 1997	16	10%	28	18%	29	19%	81	53%
Grand Total	23	7%	52	15%	65	19%	208	60%

Source: U.S. Census Demographic Data and HMDA Loan Application Registers

*The totals do not include 34 loans to borrowers with unknown incomes

Overall, the distribution of loans to low-income borrowers is low when compared to the income characteristics of the assessment area. The bank originated 7% of the total number of home mortgage and home improvement loan originations to low-income borrowers. This is low when compared to demographic information that shows 24% of all families living in the assessment area are low-income. However, low-income households above the poverty level represent approximately 5% of all households. The high percentage of low-income households living below the poverty level may impede home loan opportunities to this income group.

Frost originated 15% of the total number of home mortgage and home improvement loan originations to moderate-income borrowers. This is generally in line with demographics that show 16% of all families living in the assessment area are moderate-income.

The following table reflects Frost's overall market share in home purchase, refinance and home improvement loans originated within the Corpus Christi assessment area. It also shows market share and rank for home related loans originated to low- and moderate-income borrowers.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Borrower									
Loan Product	All Borrowers			Low-Income Borrowers			Mod-Income Borrowers		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	73	1.0%	22	3	1.5%	18	8	0.9%	23
Home Improvement	127	10.7%	2	4	3.0%	10	16	9.4%	4
Total	200	2.4%	10	7	2.1%	18	24	2.4%	11

Source: HMDA Aggregate Data

The bank is one of the leaders making home improvement loans in the Corpus Christi Metropolitan Area. However, Frost is not a leader among financial institutions making home improvement loans to low- and moderate-income borrowers in the assessment area. The bank's overall home improvement market share far exceeds its market share to low- and moderate-income borrowers. The bank has a small portion of the market in home purchase and refinance loans. The bank's home purchase/refinance market share to low- and moderate-income borrowers compares well with its overall market share.

Consumer Loans

Frost has made consumer loans to individuals and families of different income levels. The following table reflects the distribution of consumer reportable loans from January 1, 1996 through November 30, 1997 for the assessment area. For comparison, the chart also presents the distribution of families living in the assessment area according to their income level.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	21,783	24%	14,395	16%	16,937	19%	36,580	41%
Characteristics of Households	31,154	26%	17,390	15%	20,017	17%	49,772	42%
Loan Product	#	%	#	%	#	%	#	%
Motor Vehicle Loans	67	6%	157	15%	248	23%	593	56%
Other Secured Loans	18	16%	12	11%	25	22%	57	51%
Other Unsecured Loans	36	9%	62	16%	86	22%	202	52%
Total 1996	121	8%	231	15%	359	23%	852	55%
Motor Vehicle Loans	119	10%	220	18%	281	24%	571	48%
Other Secured Loans	55	19%	80	28%	67	23%	86	30%
Other Unsecured Loans	127	15%	176	20%	164	19%	395	46%
Total YTD 1997	301	13%	476	20%	512	22%	1,052	45%
Grand Total	422	11%	707	18%	871	22%	1,904	49%

Source: U.S. Census Demographic Data and bank prepared Consumer Loan Data Collection Registers

*The totals do not include 2,194 loans to borrowers with unknown incomes (1,480 are student loans)

The distribution of consumer loans to low- and moderate borrowers is reasonable when compared to the number of households and the poverty rate in these areas. The bank originated 11% and 18% of its consumer related loans to low- and moderate-income borrowers, respectively. This compares to demographic data that shows approximately 41% of the households have low- and moderate-incomes. As noted in the home mortgage analysis, low-income households above the poverty level represent approximately 5% of all households. The high percentage of borrowers with incomes below the poverty level may impede consumer loan opportunities to this income group.

Community Development Loans

Based on information provided by the bank, there are no qualified community development loans in this assessment area. However, it should be noted that during the assessment period Frost made 23 loans totaling \$425 thousand through the City of Corpus Christi/Nueces County Contractor Loan Program. These loans are technically small business loans under the provisions of the CRA and are considered in that portion of the lending test. However, the primary purpose of these loans were for community development purposes. The bank provides financing to contractors used by the City of Corpus Christi in its home rehabilitation and emergency grant assistance programs. The programs require the bank to fund up to 80% of a home rehabilitation or emergency repair project to be repaid upon completion of the contract. In 1997, the Contractor Loan Program was expanded to include assistance programs offered by the

Nueces County Community Action Agency. In 1996 and 1997, Frost made 23 loans totaling \$425 thousand under the program.

INVESTMENT TEST

The bank's level of investments in the Corpus assessment area is somewhat low. Frost has 4 qualified items which total \$126,383. The bank has a \$125,000 investment in the Corpus Christi Community Development Corporation which provides assistance for affordable housing. The bank was a founding member in 1994. One hundred thousand of this amount was inherited through a bank merger.

SERVICE TEST

Delivery systems are accessible to most portions of the Corpus Christi Metropolitan Area. Branches are centrally located in both Nueces and San Patricio Counties and are not readily accessible to outlying population pockets in the county. Accessibility was increased with the opening of the Padre Island branch located in the far southeast corner of Nueces County. No branches have been closed in the last two years. Services offered by Frost in the Corpus Christi Metropolitan Area reflect those offered by the overall bank. Full service branches are reasonably distributed throughout the area and are augmented by an extensive ATM network and telephone and on-line access to loan applications and account transactions.

The following table illustrates how the bank's locations generally reflect the income distribution of the area's population and geographies.

Distribution of Delivery System By Income Level of the Census Tracts in the Corpus Christi MSA								
Community Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	8	10%	16	21%	26	34%	27	35%
Households	9,907	8%	25,278	21%	44,755	38%	38,393	33%
Type of Service	#	%	#	%	#	%	#	%
Full Service Offices	2	20%	2	20%	4	40%	2	20%
Free Standing ATMs	0	0%	0	0%	2	100%	0	0%
Non-proprietary ATMs*	0	0%	1	11%	4	44.5%	4	44.5%
Totals	2	10%	3	14%	10	48%	6	28%

Source: Bank Internal Records

*Numbers shown include ATMs located in HEB or Pantry Food stores and are available to Frost customers with no terminal charges.

Hours of operation in the Corpus Christi Metropolitan Area are the same at different branch locations. Lobby hours are Monday through Thursday, 9:00 a.m. to 4:00 p.m., Friday, 9:00 a.m. to 5:00 p.m. Motor Bank hours are Monday through Friday, 7:00 a.m.

to 6:00 p.m., Saturday, 9:00 a.m. to 1:00 p.m. Hours are commensurate with those offered locally by other financial institutions.

The bank provides a reasonable level of community development services in the assessment area. The bank participated in small business development efforts and provided technical expertise by participating in seminars with the Banker's Entrepreneurial Success Training Program. Bank officers have also been active in the local Small Business Development Center and Minority Business Opportunities organization through committee work.

Description of Institution's Operations in the McAllen-Edinburg-Mission Metropolitan Area (MMA)

Frost has defined the entire McAllen-Edinburg-Mission MSA as its assessment area. Frost operates two full-service branch offices in the City of McAllen.

Deposits originating from the McAllen-Edinburg-Mission MSA represents 2% of Frost's total deposits. Competition is fierce. The market is dominated by a large state bank (Texas State Bank) with 29% of the deposit market, branches of a large national banking company affiliate (Texas Commerce Bank, N.A.) with 16%, and a mid-size regional bank (International Bank of Commerce) with 17% of the market. Frost's deposit market share in McAllen is only 2%.

Description of the McAllen-Edinburg-Mission Metropolitan Area

The McAllen-Edinburg-Mission Metropolitan Area is composed of Hidalgo County and includes 63 census tracts. The MSA is located in south Texas and is a border town of Mexico. 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 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%	2,151	24%	17,758	24%	14,605	16%
Middle	27	43%	180,363	47%	3,242	36%	35,430	49%	14,701	17%
Upper	17	27%	96,111	25%	3,693	41%	19,524	27%	37,507	42%
Totals	63	100%	383,545	100%	9,086	100%	72,712	100%	88,614	100%
Median Family Income (MFI) = \$17,619 HUD Adjusted MFI for 1997 = \$24,800					Median Housing Value = \$38,999 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 figure used to determine the income designation of families within the Metropolitan Area. 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 Frost'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 non-profit organization. The needs identified included small consumer 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.

Lending Test

The McAllen Metropolitan Area accounts for a relatively small percentage of HMDA, small business, and consumer related loan originations bankwide. HMDA and small business loans comprise only 5% of the bank's total loans for these types of lending. Also, McAllen accounts for approximately 7% of consumer related loans bankwide. Overall, loan volume is reasonable considering the amount of deposits gathered from the area. Only 2% of deposits are derived from branches located within the McAllen assessment area.

Geographic Distribution of Loans within the McAllen Metropolitan Area

Small Business and Farm Loans

Frost’s geographic distribution of small business/farm loans reflects an opportunity for the bank to improve the dispersion throughout the assessment area. The following table shows the number of small business/farm loans originated from January 1, 1996 through November 30, 1997. The table also displays the number and percentage of businesses located in moderate-, middle-, and upper-income census tracts.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tract								
Assessment Area 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)	0	0%	8	42%	16	59%	14	82%
Number of Businesses	0	0%	2,151	24%	3,242	36%	3,693	41%
Number of Farms	0	0%	38	21%	71	40%	70	39%
Loan Product	#	%	#	%	#	%	#	%
Small Business	0	0%	6	4%	81	49%	80	48%
Small Farm	0	0%	0	0%	0	0%	0	0%
Total 1996	0	0%	6	4%	81	49%	80	48%
Small Business	0	0%	12	10%	42	35%	65	55%
Small Farm	0	0%	0	0%	0	0%	0	0%
Total YTD 1997	0	0%	12	10%	42	35%	65	55%
Grand Total	0	0%	18	6%	123	43%	145	51%

Source: Business Demographic Data and bank prepared Small Business and Farm Loan Data Collection Register

The number of loans made in upper- and middle-income census tracts is nearly fifteen times more than the number of loans made in moderate-income census tracts. Frost made 6% of its small business loans to moderate income census tracts. This compares unfavorably to demographics that show 24% of the total number of businesses are located in moderate-income census tracts.

The bank has made small business loans in less than half of the total number of moderate-income census tracts. Of those moderate-income census tracts showing no lending activity, four are within a five mile radius of at least one of the bank’s branches, and two of these census tracts are adjacent to a census tract where a branch is located. Approximately 59% of the businesses located in moderate-income census tracts with no loan activity are located in the four tracts nearest Frost’s offices. Also, other lenders originated 356 small business loans totaling \$29.8 million in moderate-income census tracts with no Frost activity in 1996. This indicates small business loan opportunities exist in these census tracts.

The following chart shows Frost's overall market share to small businesses with revenues less than \$1 million. It also shows the market share and rank for small business and farm loans made in low- and moderate-income census tracts.

1996 Small Business/Farm Loan Origination Market Share Loans to Businesses with less than \$1 million in annual revenues Within the Assessment Area by Income Level of the Census Tract									
Loan Product	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Small Business	132	4.9%	6	NA	NA	NA	3	0.7%	11
Small Farm	0	0%	NA	NA	NA	NA	0	0%	NA
1996 Totals	132	4.7%	6	NA	NA	NA	3	0.7%	11

Source: Small Business Aggregate Data

Frost is among the top six lenders in the origination of small business loans in the McAllen Metropolitan Area. However, Frost's loan volume in moderate-income census tracts is weak considering its market share in these tracts is much lower than its overall market share.

Home Mortgage Loans

A review of Frost's residential lending patterns from January 1, 1996 through December 31, 1997 reflects an opportunity to improve its loan dispersion to moderate-income census tracts. The following table shows residential lending patterns by the income level of the census tracts located within the McAllen Metropolitan Area.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Census Tracts								
Assessment Area 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)	0	0%	8	42%	17	63%	15	88%
Number of 1-4 Family Units	0	0%	24,293	27%	40,377	45%	24,495	27%
Median Year Built of Housing	NA		1974		1976		1977	
Loan Product	#	%	#	%	#	%	#	%
Home Purchase/Refi	0	0%	0	0%	8	24%	25	76%
Home Improvement	0	0%	1	3%	2	7%	26	90%
Total 1996	0	0%	1	2%	10	16%	51	82%
Home Purchase/Refi	0	0%	2	6%	6	19%	23	74%
Home Improvement	0	0%	6	11%	24	43%	26	46%
Total YTD 1997	0	0%	8	9%	30	34%	49	56%
Grand Total	0	0%	9	6%	40	27%	100	67%

Source: U.S. Census Demographic Data and HMDA Loan Application Registers

Frost funded more than fifteen times more home loans in middle- and upper-income census tracts than in moderate-income census tracts during the time period noted above. The bank made approximately 6% of home related loans to moderate-income census tracts. This percentage is low when compared to demographic information that shows approximately 27% of 1-4 family housing units are located within moderate-income census tracts.

Frost made home related loans in less than half of the moderate-income census tracts. Moderate-income census tracts with no HMDA reportable loans in 1996 and 1997 were analyzed to determine whether there are home loan opportunities in these areas. Based on 1990 Census Bureau demographic data, the census tracts contain approximately 15,439 housing units of which 9,562 or 64% are owner-occupied. Also, five of the eleven moderate-income census tracts showing no Frost home lending activity are located in reasonable proximity to the bank's branches. Additionally, other lenders originated 692 home related loans totaling \$13.5 million in these census tracts in 1996. These figures indicate an opportunity to make home related loans in the area.

The following table shows Frost's overall market share for home purchase/ refinance and home improvement loans in the assessment area. It also shows market share and rank for home related loans made in moderate-income census tracts.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Census Tract									
	All Tracts			Low-Income Tracts			Moderate-Income Tracts		
Loan Product	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	33	0.6%	29	0	0.0%	29	0	0.0%	79
Home Improvement	29	1.1%	15	0	0.0%	15	1	0.1%	22
Total	62	0.8%	30	0	0.0%	31	1	0.1%	56

Source: HMDA Aggregate Data

Overall, Frost has a very small presence in the home loan market in the McAllen Metropolitan Area. Additionally, the bank only made one home related loan in a moderate-income census tract in 1996. This performance is considered weak.

Consumer Loans

A review of Frost's consumer lending patterns from January 1, 1996 through November 30, 1997, shows a reasonable dispersion of lending volume to moderate-income census tracts. The following table shows consumer lending patterns by the income level of the census tracts located within the assessment area.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Census Tracts									
Assessment Area 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)	0	0%	19	100%	27	100%	17	100%	
Number of Households	0	0%	25,479	25%	47,864	46%	30,171	29%	
Loan Product	#	%	#	%	#	%	#	%	
Motor Vehicle Loans	0	0%	148	14%	367	34%	555	52%	
Student Loans	0	0%	32	15%	80	38%	100	47%	
Other Secured Loans	0	0%	10	13%	23	31%	42	56%	
Other Unsecured Loans	0	0%	3	3%	37	31%	80	67%	
Total 1996	0	0%	193	13%	507	34%	777	53%	
Motor Vehicle Loans	0	0%	225	16%	649	47%	500	36%	
Student Loans	0	0%	46	17%	118	45%	100	38%	
Other Secured Loans	0	0%	10	14%	24	32%	40	54%	
Other Unsecured Loans	0	0%	5	4%	41	29%	93	67%	
Total YTD 1997	0	0%	286	15%	832	45%	733	40%	
Grand Total	0	0%	479	14%	1,339	40%	1,510	45%	

The bank made approximately 14% of consumer related loans to moderate-income census tracts for the time period reviewed. This percentage is low when compared to demographic information that shows approximately 25% of households are located within moderate-income census tracts. However, the percentage of consumer related loans made in moderate-income census tracts is reasonable considering over 50% of the households in these census tracts have incomes below the poverty level.

There are no conspicuous gaps in Frost’s consumer related loan activity in the assessment area. All census tracts have consumer loan activity.

Distribution by Borrowers’ Income within the McAllen/Edinburg/Mission Metropolitan Area

Small Business and Small Farm Loans

Frost has been responsive to small business credit needs within the assessment area. The following table shows the bank’s willingness to make loans of varying sizes and to businesses of different revenue levels.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Loan Size and Business Revenues								
Loan Size				Annual Revenues < \$1 Million				
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	237	83%	\$6,255	31%	181	76%	\$4,754	76%
\$100,000 to \$250,000	33	12%	\$5,573	27%	23	70%	\$3,848	69%
\$250,000 to \$1,000,000	16	6%	\$8,635	42%	6	38%	\$3,618	42%
Totals	286	100%	\$20,463	100%	210	73%	\$12,220	60%
Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of the Business or Farm:				= < 1 Million	73%	*As a percentage of loans of the size category		
				> 1 Million	15%			
				Unknown	12%			

Source: Business Demographic Data and bank prepared Small Business and Farm Data Collection Register

As noted in the above table, a high percentage of the number and percentage of small business loans had original loan amounts of \$100 thousand or less, and a substantial majority of the number were to small businesses with annual revenues of less than \$1 million. Demographic data reveals that approximately 73% of businesses located in the assessment area have revenues of less than \$1 million. Frost’s small business lending patterns are consistent with the number of small businesses located within the assessment area.

Home Mortgage Loans

Frost has originated a large portion of home loans to upper income individuals and families. The following table reflects the distribution of HMDA reportable loans from

January 1, 1996 through December 31, 1997. For comparison, the table also presents the distribution of families living in the assessment area according to their income level.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Borrower								
Assessment Area 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/Refi	0	0%	0	0%	5	15%	28	85%
Home Improvement	1	3%	1	3%	0	0%	27	93%
Total 1996	1	2%	1	2%	5	8%	55	89%
Home Purchase/Refi	0	0%	2	9%	3	14%	17	77%
Home Improvement	0	0%	2	5%	5	12%	36	84%
Total 1997	0	0%	4	6%	8	12%	53	82%
Grand Total	1	1%	5	4%	13	10%	108	85%

Source: US Census Demographic Data and HMDA Loan Application Registers

*The totals do not include 22 loans to borrowers with unknown incomes

Loan volume to low- and moderate-income borrowers is very low when compared to the income characteristics of the assessment area. Approximately 5% of the total number of loans were made to low- and moderate-income borrowers for the time period noted above. This falls well short of demographic information that shows 41% of all families within the assessment area are low- or moderate-income. Also, 1996 aggregate data shows that other lenders made approximately 25% of their home related loans to low- and moderate-income borrowers in the assessment area.

The following table shows Frost's overall market share in home purchase/ refinance and home improvement loans originated within the assessment area. It also shows market share and rank for HMDA related loans originated to low- and moderate-income borrowers.

1996 Home Mortgage Loan Originations Market Share Within the Assessment Area by Income Level of the Borrower									
Loan Product	All Borrowers			Low-Income Borrowers			Mod-Income Borrowers		
	#	% Mkt	Rank	#	% Mkt	Rank	#	% Mkt	Rank
Home Purchase/Refi	33	0.6%	29	0	0.0%	38	0	0.0%	52
Home Improvement	29	1.1%	15	1	0.2%	16	1	0.1%	18
Total	62	0.8%	30	1	0.2%	23	1	0.1%	40

Source: HMDA Aggregate Data

The above market share data shows that Frost ranked near the bottom among financial institutions making home purchase, home refinancing, and home improvement loans to

low- and moderate-income borrowers in the assessment area. Frost only made two home related loans to low- and moderate-income borrowers in 1996.

Consumer Loans

Frost originated a large portion of consumer loans to upper- income individuals and families. The following table reflects the distribution of consumer loans from January 1, 1996 through November 30, 1997 for the McAllen Metropolitan Area. For comparison, the table also presents the distribution of families living in the assessment area according to their income level.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Borrower									
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income		
Characteristics of Families	21,801	25%	14,605	16%	14,701	17%	37,507	42%	
Characteristics of Households	26,700	26%	16,381	16%	16,380	16%	44,053	43%	
Loan Product	#	%	#	%	#	%	#	%	
Motor Vehicle Loans	11	1%	94	9%	164	15%	795	75%	
Other Secured Loans	6	13%	8	17%	8	17%	24	52%	
Other Unsecured Loans	3	3%	8	7%	11	10%	91	81%	
Total 1996	20	2%	110	9%	183	15%	910	74%	
Motor Vehicle Loans	32	2%	145	11%	259	19%	935	68%	
Other Secured Loans	9	14%	4	6%	13	20%	38	59%	
Other Unsecured Loans	6	4%	9	7%	18	13%	102	76%	
Total YTD 1997	47	3%	158	10%	290	18%	1,075	68%	
Grand Total	67	2%	268	10%	473	17%	1,985	71%	

Source: U.S. Census Demographic Data and bank prepared Consumer Loan Data Collection Registers

*The totals do not include 535 loans to borrowers with unknown incomes (476 are student loans)

The bank only originated 2% of consumer related loans to low-income borrowers. This compares poorly to demographic information that shows approximately 26% of households are low-income. Also, the bank originated 10% of consumer loan originations to moderate-income borrowers. This level of lending falls below demographic information that shows 16% of all families living in the assessment area are moderate-income. Lending activity has increased to both low- and moderate-income individuals, jumping 58% from 1996 to 1997. However, proportionate increases in the middle- and upper-income brackets mitigated any significant improvement in the dispersion across different income levels.

Community Development Lending

Based on information provided by the bank, there are no community development loans in the McAllen assessment area.

INVESTMENT TEST

The bank's level of investments in the McAllen assessment area is low. Frost has made one donation totaling approximately \$7 thousand to the Hidalgo County United Way which provides community services to area residents. Approximately 95% of the persons receiving assistance were considered to be low- and moderate-income individuals. The bank is currently working with area leaders to establish a local Community Development Corporation. Affordable housing has also been identified by the bank as a need for this assessment area.

SERVICE TEST

Delivery systems are reasonably accessible to essentially all portions of the assessment area. Accessibility was enhanced with the opening of a branch just off U. S. Highway 83. No branches have been closed in the last two years. Frost services offered in the McAllen-Edinburg-Mission Metropolitan Area reflect those offered by the overall bank. They do not vary in a way that inconveniences portions of the Metropolitan Area. Both full service branches are reasonably located in the center of the Metropolitan Area and are augmented by an adequate ATM network and telephone and on-line access to loan applications and account transactions.

The following table illustrates how the bank's locations relate to the income distribution of the area's population and geographies. Both full service offices have ATMs and one has a motor bank facility.

Distribution of Delivery System By Income Level of the Census Tracts in the McAllen-Edinburg-Mission MSA								
Community Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	0	0%	19	30%	27	43%	17	27%
Households	21,801	25%	14,605	16%	14,701	17%	37,507	42%
Type of Service	#	%	#	%	#	%	#	%
Full Service Offices	0	0%	0	0%	0	0%	2	100%

Source: Bank Internal Records

Hours of operation are reasonable. Lobby hours are Monday through Friday, 9:00 a.m. to 4:00 p.m. Motor Bank hours are Monday through Friday, 8:00 a.m. to 6:00 p.m., Saturday, 8:00 a.m. to 12:00 p.m. Products and services are reasonably accessible by all of the Metropolitan Area by virtue of its central location along the primary thoroughfare in the Metropolitan Area.

No community development services were identified in the McAllen-Edinburg-Mission Metropolitan Area during this review.

Nonmetropolitan Area

Description of Institution's Operations in the Nonmetropolitan Area

The nonmetropolitan assessment area is composed of Kendall County. The assessment area includes 4 census tracts. The bank has one full service branch located in the county. The following table provides basic demographic information based on the income level of the census tracts and families within the nonmetropolitan assessment area.

Demographic Information Nonmetropolitan 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%	622	15%
Moderate	0	0%	0	0%	0	0%	0	0%	540	13%
Middle	2	50%	7,333	50%	465	62%	1,868	47%	688	16%
Upper	2	50%	7,256	50%	289	38%	2,111	53%	2,366	56%
Totals	4	100%	14,589	100%	754	100%	3,979	100%	4,216	100%
Median Family Income = \$24,586					Median Housing Value = \$99,119					
HUD Adjusted Median Family Income for 1997 = \$31,500					Median Year Built = 1978					

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

The county of Kendall, is the 144th largest of the 254 counties in Texas. The county seat of Kendall is Boerne and the next most significant city is Comfort. Kendall County is a rural county located approximately 22 miles northwest of San Antonio. The local economy is good as the area's unemployment rate is below both state and national averages. Also, a high percentage (39%) of the population is considered to be upper income. Major area employers include Boerne ISD, HEB Groceries, Walmart, and the City of Boerne.

Conclusions about Performance Tests in Nonmetropolitan Area (Kendall County)

LENDING TEST

Lending Activity

The nonmetropolitan assessment area accounts for a very small percentage of HMDA, small business, and consumer related loan originations bankwide. Approximately one percent of small business and consumer related loans originated from January 1, 1996 through November 30, 1997 were made in this assessment area. Also, 2% of HMDA loans originated from January 1, 1996 through December 31, 1997, were made in the

nonmetropolitan assessment area. Lending volume is reasonable considering a commensurate amount of deposits is derived from the area. Approximately 1.5% of deposits are derived from branches located within the assessment area. However, the bank's deposit market share is significant at 29%.

Geographic Distribution of Loans within the Nonmetropolitan Area (Kendall County)

A geographic analysis would not be meaningful to the institution's overall CRA evaluation since the county does not contain any low- and moderate-income geographies. Therefore, a geographic analysis was not performed for Kendall County.

Distribution by Borrowers' Income within the Nonmetropolitan Area

Small Business and Farm Loans

Frost has been responsive to small business credit needs within the nonmetropolitan assessment area. The following chart shows Frost's willingness to make loans of varying sizes and to businesses of different revenue levels.

Distribution of Small Business and Farm Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Loan Size and Business Revenues								
Loan Size					Annual Revenues < \$1 Million			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	66	88%	\$1,300	39%	48	73%	\$894	69%
\$100,000 to \$250,000	7	9%	\$1,174	36%	6	86%	\$1,024	87%
\$250,000 to \$1,000,000	2	3%	\$827	25%	2	100%	\$827	100%
Totals	75	100%	\$3,301	100%	56	75%	\$2,745	83%
Distribution of Businesses and Farms in the Assessment Area by Annual Revenues of the Business or Farm:				=< 1 Million	75%	*As a percentage of loans of the size category		
				> 1 Million	16%			
				Unknown	9%			

Source: Business Demographic Data and bank prepared Small Business and Farm Data Collection Register

As noted in the previous chart, a high percentage of the number and dollar amount of small business loans had original loan amounts of \$100 thousand or less, and a substantial majority of the number and dollar amount were to small businesses with annual revenues of less than \$1 million. Demographic data reveals that approximately 75% of the businesses located in the nonmetropolitan area have revenues of less than \$1 million. Frost's small business lending patterns are consistent with the number of small businesses located within the area. Also, the bank's market share to businesses with revenues less than \$1 million is higher than its market share to small businesses of all revenue sizes.

Home Mortgage Loans

Frost has made a large portion of home loans to upper-income individuals and families. The following table reflects the distribution of home loans from January 1, 1996 through December 31, 1997, for the nonmetropolitan assessment area. For comparison, the chart also presents the distribution of all families living in the assessment area according to their income level.

Distribution of Home Mortgage Loan Originations in 1996 and 1997 Within the Assessment Area By Income Level of the Borrower								
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	622	15%	540	13%	688	16%	2,366	56%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase/Refi	0	0%	0	0%	4	36%	7	64%
Home Improvement	0	0%	1	4%	3	12%	21	84%
Total 1996	0	0%	1	3%	7	19%	28	78%
Home Purchase/Refi	0	0%	0	0%	2	14%	12	86%
Home Improvement	1	7%	0	0%	1	7%	13	87%
Total 1997	1	3%	0	0%	3	10%	25	86%
Grand Total	1	2%	1	2%	10	15%	53	82%

Source: US Census Demographic Data and HMDA Loan Application Registers

Overall, home related loan distribution to low- and moderate-income borrowers is low when compared to the income characteristics of the nonmetropolitan assessment area. The number of loans made to low-income borrowers equals 2% of the total number of home related originations during the time period noted above. This performance is low when compared to demographic information that shows 15% of families living in the nonmetropolitan assessment area are low-income. Likewise, the number of loans made to moderate-income borrowers equals 2% of the total number of home mortgage related originations. This is low when compared to demographic information that shows 13% of families residing in the nonmetropolitan assessment area are moderate-income.

Consumer Loans

Frost has originated consumer loans to individuals and families across economic lines. The following table reflects the distribution of consumer loans from January 1, 1996 through November 30, 1997 for the nonmetropolitan area. For comparison, the table also presents the distribution of families living in the assessment area according to their income level.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Assessment Area By Income Level of the Borrower									
Assessment Area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income		
Characteristics of Families	622	15%	540	13%	688	16%	2,366	56%	
Characteristics of Households	911	17%	676	13%	769	14%	3,009	56%	
Loan Product	#	%	#	%	#	%	#	%	
Motor Vehicle Loans	4	9%	10	22%	6	13%	25	56%	
Other Secured Loans	2	9%	6	27%	5	23%	9	41%	
Other Unsecured Loans	0	0%	6	11%	9	16%	41	73%	
Total 1996	6	5%	22	18%	20	16%	75	61%	
Motor Vehicle Loans	4	7%	9	16%	10	17%	35	60%	
Other Secured Loans	4	13%	5	16%	8	25%	15	47%	
Other Unsecured Loans	3	5%	4	7%	10	18%	38	69%	
Total YTD 1997	11	8%	18	12%	28	19%	88	61%	
Grand Total	17	6%	40	15%	48	18%	163	61%	

Source: U.S. Census Demographic Data and bank prepared Consumer Loan Data Collection Registers 1997 YTD = 11/29/97
*The totals do not include 238 loans to borrowers with unknown incomes (includes 183 student loans)

Consumer loan volume to moderate-income borrowers is very good. Approximately 15% of consumer loans were made to moderate-income borrowers which compares favorably with demographic information that shows approximately 13% of nonmetropolitan families have moderate-incomes. However, consumer loan volume to low-income borrowers at 6% is relatively low when compared to demographic information showing 15% of nonmetropolitan families have low-incomes. However, approximately 15% of the nonmetropolitan area borrowers have incomes below the poverty level. This may impede loan opportunities to low-income borrowers.

Community Development Lending

Based on information provided by the bank, no community development loans were originated in the nonmetropolitan area since the previous CRA evaluation. However, community development lending opportunities are limited.

INVESTMENT TEST

The bank's level of investments in the Kendall county assessment area is low. Frost has made 6 small donations totaling \$275. However, the bank has only one branch in the assessment area. The branch is adjacent to the San Antonio assessment area which provides a reasonable level of investments.

SERVICE TEST

Delivery systems are reasonably accessible to essentially all portions of the assessment area. No branches have been closed in the last two years. Services offered by the Boerne branch reflect those offered by the overall bank. They do not vary in a way that inconveniences portions of the area. The full service branch is located in Boerne, Texas, the primary population center of the county. Services are augmented by an ATM network and telephone and on-line access to loan applications and account transactions.

The following table illustrates how the bank’s locations relate to the income distribution of the area’s population and geographies.

Distribution of Delivery System By Income Level of the Census Tracts in Kendall County, Texas								
Community Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	0	0%	0	0%	2	50%	2	50%
Households	0	0%	0	0%	2,710	51%	2,655	49%
Type of Service	#	%	#	%	#	%	#	%
Full Service Offices	0	0%	0	0%	1	100%	0	0%
Non-proprietary ATMs*	0	0%	0	0%	1	100%	0	0%
Totals	0	0%	0	0%	2	100%	0	0%

Source: Bank Internal Records

*Numbers shown include ATMs located in HEB or Pantry Food stores and are available to Frost customers with no terminal charges.

Hours of operation are reasonable. Lobby hours are Monday through Thursday, 9:00 a.m. to 4:00 p.m., Friday, 9:00 a.m. to 5:00 p.m. Motor Bank hours are Monday through Friday, 7:00 a.m. to 6:00 p.m., Saturday, 9:00 a.m. to 1:00 p.m. Products and services are reasonably accessible by all of the city by virtue of its central location along the primary thoroughfare in the area.

No community development services were identified in the Kendall County area during this review.

Appendix A: Scope of Examination

Time Period Reviewed	4/96 to 2/98*		
Financial institution Frost National Bank San Antonio, Texas			Products reviewed Small business, Small farm, HMDA-related Loans (home purchase and refinance, home improvement), Consumer loans (motor vehicle, other secured, unsecured, student loans)
Affiliate(s)	Affiliate** relationship		Products reviewed
United States National Bank Park National Bank State Bank and Trust Citizens State Bank in Corpus Christi	Affiliate Bank Affiliate Bank Affiliate Bank Affiliate Bank		Small Business Consumer
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Texas San Antonio Houston Austin Corpus Christi McAllen Kendall County	on-site on-site on-site on-site on-site on-site	1	The examination scope was the same for each assessment area.

* This evaluation of the performance of Frost National Bank under the provisions of the Community Reinvestment Act covered the period from April 29, 1996 through February 9, 1998. The entire year of 1996 was included because the prior public evaluation only used numerical data through December 31, 1995.

** As a part of the CRA evaluation, we evaluated Frost National Bank's small business and consumer affiliate loan activity. These were subsidiaries of Cullen Frost for a short period of time before being converted into Frost National Bank. The loans were made after the affiliate bank was acquired by Cullen Frost, but before they were merged with Frost National Bank. These numbers were included in the tables in the Public Evaluation.