



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

July 09, 2012

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

South Padre Bank, National Association  
Charter Number 23670

2701 Padre Boulevard  
South Padre Island, TX 78597

Office of the Comptroller of the Currency

San Antonio South Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 78216

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

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory**

- The average quarterly loan-to-deposit ratio of 81 percent is more than reasonable given the asset size and overall financial condition of South Padre Bank (SPB). The loan-to-deposit (LTD) ratio exceeds the 49 percent average loan-to-deposit ratio of the one similarly situated financial institution located inside the assessment area (AA).
- A majority of loans originated inside the AA. Our sample reflected that 72 percent of the number, and 82 percent of the dollar volume, of loans originated inside the AA.
- The distribution of borrowers reflects reasonable penetration among individuals of different income levels and excellent penetration to businesses of different sizes.

**SCOPE OF EXAMINATION**

We used small bank Community Reinvestment Act (CRA) procedures and financial data as of March 31, 2012 to complete the CRA examination. The evaluation period covered March 31, 2007, the date of the previous CRA examination, to July 9, 2012, the date we began the examination. To evaluate lending performance, we selected a sample of 20 residential loans and 20 business loans that originated during the evaluation period. These two products reflected the main lending focus since the last CRA examination and management does not expect the focus to change. Total bank assets did not exceed Home Mortgage Disclosure Act (HMDA) reporting thresholds for 2008 and 2011, so SPB was not required to report applicable loans that originated during these years. In order to include all years in the evaluation period, we selected a judgmental residential loan sample. The residential loan sample also included a sample of HMDA-reportable loans that originated during the evaluation period.

**DESCRIPTION OF INSTITUTION**

SPB, an independently owned community bank with total assets of \$41 million at December 31, 2011, operates one office located in the resort city of South Padre Island. SPB is not part of a holding company and has no affiliate relationships. Competition comes primarily from the other national bank headquartered on the island and, to a lesser extent, from several other community and regional bank branches located on the island. SPB offers products and services that accommodate both commercial and retail segments within its AA. The following table reflects the composition of the SPB loan portfolio at March 31, 2012.

<b>Loan Portfolio Composition</b>		
<b>Loan Category</b>	<b>\$ (000's)</b>	<b>Percentage</b>
Residential	13,325	48
Commercial Real Estate	9,108	33
Commercial and Industrial	2,679	9
Commercial and Land Development	2,141	8
Consumer	652	2
Other	2	0
<b>Total</b>	<b>27,907</b>	<b>100%</b>

SPB provides lobby and drive-through services during reasonable hours from Monday through Friday, and limited services on Saturday morning. It has one automated teller machine located on bank premises for after-hour use. Based on its financial condition, the products and services offered, and its prior performance, SPB has the ability to meet various credit needs in its community. The last CRA examination, performed in July 2007, rated the bank performance “Satisfactory”. We did not identify any legal or other impediments that limit SPB’s ability to provide credit in its AA.

**DESCRIPTION OF ASSESSMENT AREA(S)**

SPB designated one census tract from the Brownsville-Harlingen Metropolitan Statistical Area (MSA) as its AA. The census tract includes the City of South Padre Island and is defined upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

South Padre Island sits on the southernmost tip of Texas, situated on the south end of Padre Island, the longest barrier island in the world and the largest stretch of undeveloped ocean beach in North America. It sits thirty miles north of Mexico, linked to the mainland by a two and a half mile long bridge, the Queen Isabella Memorial Causeway.

Tourism provides the primary economic focus of the island with hotels, condominiums, and retail stores as major employers. The following table reflects demographic information, based on the 2000 Census, for the AA.

<b>Demographic Information for the Assessment Area</b>					
	Number	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	1	0%	0%	0%	100%
Population by Geography	3,640	0%	0%	0%	100%
Owner Occupied Housing Units	1,350	0%	0%	0%	100%
Businesses by Geography	1,084	0%	0%	0%	100%
Farms by Geography	9	0%	0%	0%	100%
Family Distribution by Income Level	1,138	8%	7%	13%	72%
Household Distribution by Income Level	1,840	13%	11%	13%	63%
Census Median Family Income (MFI)	\$51,833	Median Housing Value		\$128,200	
HUD – Adjusted MFI: 2011	\$33,700	Households Below the Poverty Level		10%	
HUD – Adjusted MFI: 2010	\$33,500	Unemployment Rate		2%	
HUD – Adjusted MFI: 2009	\$32,900				
HUD – Adjusted MFI: 2008	\$31,000				

To gather current information on the nature of the community and potential lending opportunities within the AA, we reviewed a community contact conducted in June 2012. The contact resides and works on South Padre Island. The contact indicated that since city economy is tourist driven, it suffered from the nationwide economic downturn. People have less discretionary income and do not spend it. While local businesses are used to seasonal activity, the economic downturn hurt revenue. Island businesses suffered some losses in 2008 when Hurricane Dolly struck the island. While the hurricane did not cause significant building loss, roof damage resulted in many businesses, including some hotels and motels, shutting down for several months

for repair and renovation. Most businesses reopened, but at least two remain closed. The economic downturn also resulted in slowed real estate sales. The contact indicated local banks do well in meeting the financial needs of the community.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

SPB demonstrated satisfactory performance in meeting the credit needs within its AA. Our review focused on two primary lending products: residential and small business loans. We selected samples of these loan products to determine both the extent of lending inside the assessment area and to borrowers of different incomes and businesses of different sizes.

**Loan-to-Deposit Ratio**

SPB’s LTD ratio is more than reasonable. The average quarterly LTD ratio over the past 20 quarters compares favorably to the average quarterly ratio reported by the only other similarly situated financial institution headquartered in the AA. While several branches of other financial institutions are located in the AA, financial data and lending ratios for individual branches are not published.

INSTITUTION	TOTAL ASSETS (000’s) 3/31/2012	AVERAGE LTD RATIO
South Padre Bank, N.A.	\$41,490	80.77
First National Bank of South Padre Island	\$59,173	48.69

Source: Uniform Bank Performance Reports

**Lending in Assessment Area**

SPB meets the standards for satisfactory performance with a majority of loans originating inside the AA. We selected samples of residential loans, including those reportable under the HMDA, and business loans that originated subsequent to March 31, 2007 (as of date of the previous evaluation). Our analysis determined that 72 percent of the number and 82 percent of the dollar volume of all loans in our sample originated inside the AA.

Lending in the Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	15	75	5	25	20	3,337	85	459	12	3,796
Small Business	14	70	6	30	20	2,951	80	732	29	3,683
Total Reviewed	29	72	11	28	40	6,288	82	1,191	16	7,479

Source: Data reported under HMDA and loan samples

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

The distribution of residential loans reflects reasonable penetration among borrowers of different income levels even though SPB originated no residential loans to low- or moderate-income borrowers. While the 2011 median family income was \$51,833 for South Padre Island, high real estate values make it difficult for low- and moderate-income individuals to qualify for residential loans. Census reports show that 10 percent of households live below the poverty level. Internal reports reflect approximately 76 percent of residential loans originated for purchasing investment property; another 21 percent originated for purchasing vacation or second homes. Our loan sample reflected many borrowers with income levels well in excess of \$100,000 annually.

Borrower Distribution of Residential Real Estate Loans in the AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential	8	0	7	0	13	5	72	95

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

The distribution of loans to businesses of different sizes reflects excellent penetration. SPB originates a substantial number of loans to small businesses. The loan sample reflected SPB originated 95 percent of the number, and 58 percent of the dollar volume, to businesses with annual revenues less than \$1 million. A \$1.5 million loan to a business with annual revenues greater than \$1 million resulted in the low dollar volume percentage to small businesses.

Borrower Distribution of Loans to Businesses in the AA				
Business Revenues (or Sales)	≤ \$1,000,000	> \$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	65	3	32	100
% of Bank Loans in AA by #	95	5	0	100
% of Bank Loans in AA by \$	58	42	0	100

Source: Loan sample; Dunn and Bradstreet data.

The following table shows that a substantial majority of the number of business loans originate in amounts less than or equal to \$100,000.

Borrower Distribution of Loans to Businesses by Loan Size in the AA				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	14	70	851	24
\$100,001 - \$250,000	3	15	399	11
\$250,001 - \$500,000	2	10	810	23
\$500,001 - \$1,000,000	0	0	0	0
Over \$1,000,000	1	5	1,500	42

Source: Loan sample.

### **Geographic Distribution of Loans**

The AA includes one upper-income census tract and no low- or moderate-income census tracts; a geographic distribution analysis would not be meaningful.

### **Responses to Complaints**

SPB did not receive any complaints related to its CRA performance during the evaluation period.

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

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