



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 22, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First National Bank of San Benito
Charter Number 16809**

**1151 West Highway 77
San Benito, TX 78586**

**Comptroller of the Currency
ADC - San Antonio South
10101 Reunion Place Boulevard Suite 402
San Antonio, TX 78216**

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

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INSTITUTION'S CRA RATING

This institution is rated **satisfactory**.

First National Bank of San Benito's lending performance reflects a satisfactory response to community credit needs, including low- and moderate-income individuals and areas. The primary factors supporting the bank's overall satisfactory rating are as follows:

- A substantial majority of loan originations, per our sample, were within the bank's assessment areas.
- The distribution of loans sampled indicated reasonable penetration among individuals of different income levels and to businesses of different sizes.
- The geographic distribution of loans sampled indicated reasonable dispersion throughout the assessment areas.
- The loan-to-deposit ratio is reasonable given the bank's size and financial condition, and the assessment area's credit needs.
- The bank has a loan to the San Benito Housing Authority which provides housing assistance to low- and moderate-income families. The bank also has an investment in the independent Bankers Capital Fund, L.P. which makes funds available to qualified small businesses as a Small Business Investment Company.

DESCRIPTION OF INSTITUTION

First National Bank of San Benito (FNB) is an independently owned commercial bank with assets of \$78 million as of March 31, 2002. The main office is located in San Benito. The bank has one full service branch office in Harlingen. Both are within the boundaries of Cameron County. A 24-hour automatic teller machine (ATM) is located at each office. The bank is a wholly owned subsidiary of San Benito Bancshares, Inc., a one-bank holding company. The bank is the only subsidiary of the holding company; therefore, total assets are the same. Competition is strong with several other community banks and regional bank branches located in the area.

FNB's loan portfolio is diverse. Loans account for 48 percent of the bank's total assets, centered in commercial loans (both real estate and non-real estate) and consumer loans (both real estate and non-real estate). A summary of the loan portfolio distribution as of March 31, 2002 is as follows:

Loan Portfolio Composition As of March 31, 2002		
Loan Category	\$ (000)	%
Commercial Loans - Real Estate	11,260	30
Commercial Loans - Other	8,519	23
Consumer Loans	5,151	14
Residential Real Estate Loans	4,465	12
Construction, Land Development	3,819	10
Ag Production/Farmers/Farmland	3,519	9
Other	603	2
Total	37,336	100

There are no legal or other financial impediments that limit the bank's ability to help meet the credit needs in its assessment area. The bank's previous Community Reinvestment Act (CRA) rating was satisfactory, based on a Performance Evaluation dated September 10, 1997. The bank does not have any affiliate relationships (other than its parent holding company) and there have been no changes in its corporate structure since the last review.

DESCRIPTION OF ASSESSMENT AREA

FNB's assessment area (AA) is defined as the northern two-thirds of Cameron County, which is in the lower Rio Grande Valley, and a part of the Brownsville-Harlingen-San Benito Metropolitan Statistical Area (MSA). The AA includes, but is not limited to, the cities of San Benito, Harlingen, La Feria, Los Fresnos, Port Isabel, and South Padre Island. The AA meets the requirements of the regulation.

The AA has 31 census tracts with an estimated population of 135 thousand. The AA consists of three moderate, 18 middle and 10 upper-income census tracts. Seven percent of the population resides in moderate-income tracts, 67 percent reside in middle-income tracts, and 26 percent reside in upper-income tracts. The following table reflects additional AA demographics.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	33,095
Number of Households	40,753
<i>Geographies</i>	
Number of Census Tracts/BNA	31
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	10
% Middle-Income Census Tracts/BNA	58
% Upper-Income Census Tracts/BNA	32
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	21,732
2000 HUD-Adjusted MFI	27,900
2001 HUD-Adjusted MFI	29,100
<i>Economic Indicators</i>	
Unemployment Rate	4.39
2001 Median Housing Value	47,248
% of Households Below Poverty Level	29.70

Major employers in the AA include the school district, local and federal government, and health services. Fruit of the Loom and RMH Teleservices also employ a significant number of residents. A Levi manufacturing facility in San Benito is in the process of closing, which will affect about 450 people. The city is developing an assistance program, including possible training for affected employees. Data for the entire Brownsville-Harlingen-San Benito MSA shows an employment composition of 30 percent services, 24 percent trade, 24 percent government, 10 percent manufacturing, 5 percent utilities, and 7 percent miscellaneous.

Interviews were conducted with two community members during this review. The contacts included a government official in San Benito and a business/labor leader in Harlingen. Specifically, the contacts identified low-income housing, small business lending, and better infrastructure as the primary needs of the AA. Both contacts felt that the local economy was good and that local banks are responsive to most community credit needs.

SAMPLING INFORMATION

Our review focused on three of FNB's significant product lines: 1-4 family residential, consumer credit, and business (non-farm) loans. We sampled 20 loans from each product line. For the Lending to Borrowers of Different Incomes, Lending to Businesses of Different Sizes and Geographic Distribution of Loans analysis, we excluded loans that were made outside of the AA. All loans sampled were originated during 2000 and 2001, and selected at random.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB's loan-to-deposit ratio (LTD) meets the standards for satisfactory performance. The ratio is reasonable and commensurate with the bank's size, competition, and available resources, and the demographics of the AA. The average loan-to-deposit ratio for the last eighteen quarters ending December 31, 2001, was 57.12 percent. The bank's loan-to-deposit ratio has increased from 55.19 percent at September 30, 1997, to 63.83 percent at December 31, 2001. As of March 31, 2001 the ratio was at 59.40 percent due to a large commercial loan payoff during the quarter. The following chart compares FNB's ratio to that of its peers.

Institution	Assets (as of 12/31/01)	Average LTD Ratio
Alamo Bank of Texas	179,402	69.02
South Padre Bank, N.A.*	21,481	68.79
<i>FNB San Benito</i>	<i>71,988</i>	<i>57.12</i>
FNB South Padre Island	44,496	46.22

* Average of past 12 quarters - bank opened for business during the first quarter of 1999.

Lending in Assessment Area

FNB's lending in the AA exceeds the standards for satisfactory performance. A substantial majority of the bank's lending activity is within its AA. As illustrated in the following table, 92 percent of the number and 96 percent of the dollar amount of sample loans were made in the AA. The following table depicts the bank's lending in and out of the AA based on our sample of the 60 loans originated during 2000 and 2001.

Lending in and Out of the Assessment Area Based on Total Loans Sampled								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential RE	19	95	780	98	1	5	15	2
Consumer	18	90	155	85	2	10	26	15
Commercial	18	90	789	96	2	10	29	4
Total Sampled	55	92	1,724	96	5	8	70	4

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

FNB meets the standards for satisfactory performance in this category. The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes, given the demographics of the AA.

The income levels of borrowers are classified based upon the 2000 and 2001 HUD (Housing and Urban Development) estimated AA MFI (Median Family Income) of \$27,900 and \$29,100,

respectively. A small business is defined as a business with annual revenues of less than \$1 million. The following table provides information on how each income level is defined.

Income Categories of Borrowers			
Income Level	Percent of Median Family Income	Income Ranges	
		2000	2001
Low	Less than 50%	Less than \$13,950	Less than \$14,550
Moderate	50% to less than 80%	\$13,950 to less than \$22,320	\$14,550 to less than \$23,280
Middle	80% to less than 120%	\$22,320 to less than \$33,480	\$23,280 to less than \$34,920
Upper	120% and over	More than \$33,480	More than \$34,920

The following table reflects the income distribution of loans in our residential sample.

RESIDENTIAL REAL ESTATE DISTRIBUTION								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
% of AA Families	21.6		15.2		17.3		45.9	
LOANS BY YEAR	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
2000	0	0	14	6	29	20	57	74
2001	15	3	15	7	32	34	38	56
Total	10	2	15	7	30	29	45	62

FNB's level of lending to each income level is acceptable when viewed from the AA's population demographics and other related factors. Specifically, nearly 30 percent of the AA's households are below the poverty level, which generally tends to exclude this segment of the community from a potential loan pool from which they can draw. This is reflected in the percentage of loans originated to low-income families. A review of HMDA data reveals that FNB has made several home improvement loans to low-income families. Loans originated to moderate-income families mirrors the AA's demographics.

The following table reflects the income distribution of loans in our consumer loan sample.

CONSUMER CREDIT DISTRIBUTION								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	23.7		14.3		16.1		45.8	
LOANS BY YEAR	% of #	% of \$	% of #	% of \$	% of #	% of \$	% #	% of \$
2000	0	0	36	14	9	7	55	79
2001	56	35	0	0	11	7	33	58
Total	25	10	20	10	10	7	45	73

The sample of consumer loans indicates that the bank has a good record of consumer loan originations to low- and moderate-income borrowers. While 38 percent of the households in the AA are considered low- and moderate-income, 45 percent of the number of consumer loans originated by the bank were to low- and moderate-income households. The disparity between 2000 and 2001 is due to bank locations. FNB open their branch in Harlingen in late 2000. This branch is in closer proximity to lower and moderate-income area within the AA. Middle- and upper-income census tracts surround the San Benito office.

FNB has a very reasonable level of performance regarding loans to small businesses. Of the 20 sampled business loans the bank made in its AA, 18 (90 percent) were to small businesses. The following table illustrates the lending distribution to businesses located within the bank's AA.

DISTRIBUTION OF LOANS TO BUSINESSES (Non-Farm)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93	7
% of Bank Loans in AA #	90	10
% of Bank Loans in AA \$	94	6

As the table shows, the percent of both number and dollar of loans granted to small businesses clearly exceeds the number and dollar of loans to larger businesses. The ratios also closely represent the percentage of area businesses reporting these income levels.

Geographic Distribution of Loans

FNB's overall geographic distribution of loans throughout the AA is reasonable and meets the standards for satisfactory performance. The distribution generally reflects the demographics of the community and opening of the Harlingen branch in 2000. The following table illustrates the lending distribution of 1-4 family residential loans sampled that were made within the AA.

RESIDENTIAL REAL ESTATE - GEOGRAPHIC DISTRIBUTION

Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0		5.3		65.7		29.1	
LOANS BY YEAR	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
2000			0	0	43	26	57	74
2001			8	3	61	75	31	22
Totals	NA	NA	5	2	55	57	40	41

The following table illustrates the lending distribution of sampled consumer loans made within the AA. Although our sample did not include any loan originations in moderate-income census tracts, a review of FNB's loan trial balance was conducted to verify the bank did in fact have loans in these areas. They were not picked up in the sample due to the small percentage of population in these areas and the sample size. A primary factor is that the three moderate-income tracts are in the downtown section of Harlingen, which are mostly established commercial areas. In addition, there are several other financial institutions in closer proximity serving the area.

CONSUMER CREDIT - GEOGRAPHIC DISTRIBUTION								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0		7.3		62.9		29.8	
LOANS BY YEAR	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
2000			0	0	36	24	64	76
2001			0	0	56	19	44	81
Totals	NA	NA	0	0	45	23	55	77

The following table reflects the bank's distribution of commercial, non-farm loans. Once again, the opening of the Harlingen office in late 2000, and its closer proximity to moderate-income tracts is reflected in the percentages.

BUSINESS LOANS - GEOGRAPHIC DISTRIBUTION								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		13		48		39	
LOANS BY YEAR	% of #	% of \$	% of #	% of \$	% of #	% of \$	% of #	% of \$
2000			0	0	78	92	22	8
2001			9	2	91	98	0	0
Totals	NA	NA	5	1	85	96	10	3

Qualified Investments and Community Development Services

FNB loaned \$437 thousand to the San Benito Housing Authority in 1999. San Benito Housing Authority purchased a 12-unit apartment complex and refinanced the existing debt of a 16-unit complex. The San Benito Housing Authority provides low cost housing to low- and moderate-income families.

The bank also has an investment of \$12,849, as of March 31, 2002, in the Independent Bankers Capital Fund, L.P. The partnership was created by Texas Independent Bank (TIB), in February 2000, as a small business investment company licensed under the Small Business Administration. The fund's investments are primarily in Texas, targeting smaller businesses.

Responses to Complaints

The bank has not received any complaints since the last evaluation regarding its performance under CRA.

Fair Lending Review

An analysis of five years of public comments and consumer complaint information was performed according to the OCC's risk-based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed as of August 7, 1997. There were no indications of any prescreening or discouragement of applicants detected during this review.