



PUBLIC DISCLOSURE

December 4, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of South Padre Island
Charter Number 18063

709 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 75216-4133

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, and should not 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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Overall CRA Rating

The Lending Test is rated: Satisfactory.

First National Bank of South Padre Island (FNB) has a satisfactory record of meeting community credit needs. Factors supporting FNB's overall CRA rating of satisfactory include:

- The average quarterly loan-to-deposit (LTD) ratio of 48 percent over the prior 20 quarters is reasonable given the bank's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of the primary loan products, originated during the evaluation period, are to borrowers within the AA.
- The bank has reasonable penetration to borrowers of various income levels and to businesses of different sizes.
- There is no evidence of illegal discrimination.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

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

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing).

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business (es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

FNB is a full-service, intrastate community bank headquartered in South Padre Island, Texas. FNB is located in Southern Texas, 175 miles south of Corpus Christi and 75 miles east of McAllen. FNB is wholly-owned by Laguna Madre Delaware Bancshares, which is in turn 100 percent owned by Laguna Madre Bancshares Corporation of South Padre Island, Texas. The OCC did not review any affiliate activities during this evaluation.

In addition to the main location in South Padre Island, Texas FNB has one branch located in Port Isabel, Texas. Both locations are in Cameron County and provide basic banking services, including automated teller machines (ATMs). FNB has not opened or closed any locations since the prior CRA examination.

Based on the bank's financial condition, local economy, product offerings, and prior performance, the bank has the ability to meet the various credit needs of its community. FNB offers traditional loan and deposit services. Online banking services allow customers to view account activity, transfer funds, pay bills, send and receive messages, and download account information. Additionally depositors can access funds 24-hours a day via drive up ATMs located at both locations, and 24-hours a day account access through telephone is also available. No legal impediments or other factors hinder the bank's ability to meet the credit needs of the AA. The bank was rated "Satisfactory" at the previous CRA examination on May 21, 2012. At June 30, 2018 FNB had total assets of \$67 million with total loans of \$34 million, or 50 percent of total assets, as of June 30, 2017. FNB's current business strategy is to continue offering residential loans and commercial loans as primary lending products. A summary of the bank's lending activity is reflected in the following table.

Loan Category	Volume (\$000s)	% of Total Loans
Residential	23,709	69%
Commercial and Commercial Real Estate	10,075	29%
Consumer and Other	464	1%
Total Loans	34,248	100

Source: Call Report as of June 30, 2017

Scope of the Evaluation

Evaluation Period/Products Evaluated

The Office of the Comptroller of the Currency (OCC) evaluated FNB's CRA performance using interagency Small Bank procedures, consistent with the provisions set forth in 12 CFR 25 Appendix A. The evaluation covers the period between May 21, 2012, and December 4, 2017. The quarterly average LTD ratio was calculated by averaging LTDs over the prior 20 quarters from the date of the last CRA evaluation through June 30, 2017. The OCC analyzed loan originations during this evaluation period and identified residential and commercial (including real estate) loans as FNB's primary loan products. The sampling period used for this evaluation included loans originated, purchased, or renewed from January 1, 2013 to September 30, 2017. To evaluate residential loans, the OCC utilized Home Mortgage Disclosure Act (HMDA) data from 2013-2016. To evaluate commercial loans, the OCC selected all 30 commercial loans originated or renewed from January 1, 2015 through September 30, 2017.

Data Integrity

The OCC conducted a data integrity examination in August 2017 to ensure HMDA data reliability. The review found the data to be reliable, accurate, and noted no major deficiencies. For loans sampled to test commercial lending, information reported was traced back to source documents. The OCC found no discrepancies between bank reported and source document data.

Selection of Areas for Full-Scope Review

FNB has only one AA, therefore it received a full scope review. See appendices A and B for more information.

Ratings

The bank's overall rating is based on the full scope review of the only AA, with significant weight given to the primary products of residential and commercial loans. See appendix A for more information.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c) or 195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's CRA performance is satisfactory based upon its satisfactory performance in regards to lending test performance criteria. FNB has maintained a reasonable quarterly average LTD ratio, originated a substantial majority of primary loan products inside the AA, and distributed primary loan products to a reasonable penetration among borrowers of different income levels and small businesses.

The lending test did not include an analysis of loan distribution by geographic area as the bank's AA does not have any census tracts designated as low- or moderate-income. The bank did not receive any CRA-related complaints during this evaluation period.

Loan-to-Deposit Ratio

FNB's quarterly average LTD ratio is reasonable given the bank's asset size, competition, financial condition, and lending opportunities in the AA. For the time period covering the last 22 quarters ending September 30, 2017, FNB's quarterly average LTD ratio is 49 percent, which mirrors the ratio achieved at the last CRA evaluation. The lowest LTD ratio during the current evaluation period was 36 percent on September 30, 2013. FNB has steadily increased its LTD ratio to 64 percent as of September 30, 2017, the highest during the evaluation period.

Lending in Assessment Area

FNB originates a substantial majority of its loans within the AA. To make this determination, examiners reviewed residential loans originated in 2013 through 2016, and all commercial loans originated or renewed from January 1, 2015 through September 30, 2017. The bank extended 83 percent of loans by number and 83 percent by dollar volume to borrowers located within the AA. The following table illustrates the bank's record of lending within the AA.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Loans	108	84	21	16	129	19,186	88	2,615	12	21,801
Commercial	24	80	6	20	30	1,531	47	1,751	53	3,283
Totals	132	83	27	17	159	20,717	83	4,366	17	25,084

Source: Loan Sample.

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

The distribution of loans in FNB's AA reflects a reasonable penetration to families of different income levels and businesses of different sizes. FNB's residential loan penetration to low- and moderate-income families is poor compared to the local demographic information. FNB's lending to small businesses is excellent. FNB's poor residential lending penetration among low- and moderate-income borrowers can be explained by the high real estate values driven by the significant volume of vacation homes.

Residential Loans

The review of residential loan data indicates the bank's penetration to both low- and moderate-income borrowers is low. This occurs, in part, because of the high real estate values in the AA, especially on South Padre Island. The high values prohibit many local borrowers from qualifying for residential loans in that area. The table below shows the bank's low penetration of residential real estate loans to low- and moderate-income borrowers.

Table 2 - Borrower Distribution of Residential Real Estate Loans in 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
Home Loans	17.1	0.0	13.7	0.0	10.6	2.8	58.6	80.5

Source: data reported under HMDA; U.S. Census data. For bank loans, 16.7% have NA income

Business Loans

The table below shows the bank's strong record of lending to small businesses. Of the business loans sampled, the bank extended 83 percent of the number and 79 percent of the dollar volume to businesses with gross annual revenues of less than \$1 million. 83 percent of the businesses in the AA reported annual revenues of less than \$1 million.

Revised Tables 2A May 2004

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	83.3	6.0	10.7	100%
% of Bank Loans in AA by #	79	4	17	100%
% of Bank Loans in AA by \$	87	4.3	8.7	100%

Source: Loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

An analysis of loan distribution by geographic area would not be meaningful as the bank's AA does not have any census tracts designated as low- or moderate-income.

Responses to Complaints

The bank had no CRA related complaints.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD loans): (01/01/2015 to 06/30/2017) Investment and Service Tests and CD Loans: (N/A)	
Financial Institution	Products Reviewed	
FNB South Padre Island South Padre Island Texas	HMDA, Commercial	
Affiliate(s) N/A	Affiliate Relationship	Products Reviewed
N/A	N/A	N/A
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Brownsville-Harlingen Texas (Census Tract) #0123.05 (Census Tract) #0123.04	Full Scope	FNB South Padre Island has identified 2 census tracts in the Brownsville-Harlingen MSA as its AA.

Appendix B: Community Profiles for Full-Scope Areas

FNB South Padre Island

Demographic Information for: FNB South Padre Island AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	2	0	56	0	44	0
Population by Geography	8425	0	56	0	44	0
Owner-Occupied Housing by Geography	2336	0	46	0	54	0
Businesses by Geography	1021	0	0	82	6	11
Farms by Geography	10	0	0	100	0	0
Family Distribution by Income Level	2,218	17	14	11	58	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies			50		50	
Median Family Income	= \$45.4M	Median Housing Value		= \$198.6M		
HUD Adjusted Median Family Income for 2010	= \$38.2M	Unemployment Rate		= 2.54%		
Households Below the Poverty Level	= 659					

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2010 U.S. Census, and 2010 HUD updated MFI.

FNB selected two adjacent census tracts in the Brownsville-Harlingen Metropolitan Statistical Area (MSA) as the bank's AA. One of the census tracts is designated as middle-income and the other is upper-income. The AA includes the city of South Padre Island, which is located in the upper-income census tract, and the city of Port Isabel, which is in a middle-income census tract. The designation meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies. The following data was obtained from a deposit market share report for Cameron County which includes census tracts outside of FNB identified AA. Competition in the market is from much larger banks. Wells Fargo has the largest share of deposits with \$972 million and 22 percent market share and 11 offices. IBC Bank, and Lone Star National Bank also maintain a presence on the island. IBC has 13 offices, \$726.8 million and 16.41 percent of market share. Lone Star National Bank has 25 offices outside the market with \$1.4 billion in deposits, inside the market there are 4 offices, \$304 million in deposits and 6.8 percent of market share.

According to the 2010 census, South Padre Island, a resort community located on a large barrier island along the Texas Gulf Coast, had an official population of 3,221. The population is significantly underestimated since many people split their time between vacation properties on South Padre Island and permanent residences elsewhere. Every summer and spring break, the area's population greatly increases as tourists visit South Padre Island. The tourists are primarily Texans, but many come from Mexico and other parts of the United States. During the winter, many "Winter Texans" live in South Padre Island, or in nearby Port Isabel, which had a population of 4,505 people per the 2010 census. Tourism is the AA's primary industry. Major employers include hotels, restaurants, condominiums, and retail establishments. The following table reflects additional demographic information of the AA based on the 2010 census.

Credit needs in the community were discussed with a community contact. Needs identified consisted of typical community maintenance, improvements that are funded through bonds. Additional discussion was held about the potential building of a second causeway to increase accessibility to the island, provide another route for evacuation, and increase tourism. The details are still being worked out with funding needs still not thoroughly identified. Other credit needs of the community are housing and business loans. A majority of the housing on the island consist of investment homes that are utilized for rental income by visitors, the rest are mostly vacation homes and condos. Tourism is the primary attraction to South Padre Island and as such there are many opportunities and needs of the small business community on the island. Community contacts indicated that banks were doing a good job meeting the credit needs of the community.