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Comptroller of the Currency  
Administrator of National Banks

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## **Public Disclosure**

**March 20, 1998**

# **Community Reinvestment Act Performance Evaluation**

**South Texas National Bank of Laredo  
Charter Number: 16686**

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

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## **General Information**

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

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

## Definitions and Common Abbreviations

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

**Community Reinvestment Act (CRA)** - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

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

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

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

**Median Family Income (MFI)** - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

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

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

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

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

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

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

## CRA Rating

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

The major factors which support this rating include:

- ▶ STNB’s excellent responsiveness to the credit needs of its assessment area, as reflected in the volume of home mortgage, small business and consumer loan originations within the assessment area.
- ▶ The excellent dispersion of STNB’s home mortgage loan originations (centered in home improvement loans) and good dispersion of small business loan originations throughout assessment area geographies.
- ▶ STNB’s excellent record of serving the home mortgage loan needs of low- and moderate-income families (centered in home improvement loans) and good record of serving the credit needs of businesses with revenues of less than \$1 million.
- ▶ STNB’s very poor responsiveness to the credit and community economic development needs of the assessment area, with qualified community development investments limited to twelve grants totaling less than \$12,000.
- ▶ An adequate service delivery system commensurate with STNB’s presence in the market and scope of operations.
- ▶ An adequate level of community development services that are responsive to the credit and community development needs of STNB’s assessment area.

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

Performance Levels	South Texas National Bank of Laredo Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	<b>X</b>		
Low Satisfactory			<b>X</b>
Needs to Improve			
Substantial Noncompliance		<b>X</b>	

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

## **Description of Institution**

South Texas National Bank of Laredo (STNB) is a mid-size community bank based in the south Texas city of Laredo. As of September 30, 1997, STNB reported total assets of \$192 million. STNB is a majority-owned subsidiary of Laredo National Bancshares, Inc. (LNBI), a multi-bank (two) holding company. As of September 30, 1997, LNBI reported total assets of \$1.9 billion. STNB's only affiliate is the other bank subsidiary of the holding company, The Laredo National Bank (LNB), a mid-size regional bank also based in Laredo.

STNB operates its main office and one full-service branch in the Laredo MSA, with proprietary automated teller machines (ATMs) located at each facility. STNB opened a branch outside of the Laredo MSA in Eagle Pass, on September 15, 1997. Due to the short time the branch was in operation prior to the commencement of this evaluation, no information from this branch was considered in the evaluation of STNB's CRA performance.

STNB holds approximately 6% of commercial bank deposits in the Laredo MSA (as of June 30, 1997) and ranks fourth out of seven commercial banks. The market is dominated by STNB's affiliate (LNB) with 43% and another locally headquartered mid-size regional bank (International Bank of Commerce) with 34% of total deposits. The most similarly situated bank to STNB is a mid-size community bank (Commerce Bank) with 5% of total deposits. In addition to commercial banks, STNB faces intense competition for low- and moderate-income customers from numerous finance companies throughout the Laredo MSA.

STNB's primary business focus is on retail lending, including mortgage loans and consumer loans, and commercial real estate lending. As of September 30, 1997, STNB reported total loans of \$76 million comprising 39% of total assets. The loan portfolio is centered in loans secured by residential real estate (24%), commercial real estate (23%) and consumer (21%) loans. Commercial loans are a secondary focus (18%). In addition to home mortgage and small business loans, STNB has collected information for auto, secured and unsecured consumer loans for consideration in this evaluation.

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

STNB's CRA performance was last evaluated as of February 2, 1995. At that time STNB's overall performance was rated "outstanding."

## **Description of the Assessment Area**

STNB has defined the Laredo MSA as its assessment area. The MSA is comprised of Webb County and is located in south Texas along the Texas-Mexico border, approximately 160 miles south of the San Antonio metropolitan area. According to 1990 U.S. Census data, the MSA has a total population of 133,239. Approximately 94% of the population is Hispanic. A substantial 77% of the population is non-English speaking. The following table provides basic demographic

information based on the income level of the census tracts and families within the Laredo MSA. None of the census tracts in the MSA are defined as low-income.

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

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

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

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

While the MFI is comparatively low, the median housing value in the Laredo MSA is high at \$50,751. There exists a definite mismatch between the financial ability of the residents of the Laredo MSA to purchase a home and the cost of a home. The high housing costs are attributed

to high land costs resulting from the control of the supply of land for development by a handful of investors. The high cost of housing coupled with the low MFI increases the difficulty of making home mortgage loans to low- and moderate-income families in the Laredo MSA.

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

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

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

This Performance Evaluation presents information on STNB's home mortgage, small business and consumer loans originated from January 1, 1996 through September 30, 1997. Unless otherwise noted, a reference to loans means these types of loans and not all loans made by the bank (e.g., large commercial business loans). The accuracy of data collected by STNB for small business and consumer loans was verified through the review of limited samples. Errors were identified that required STNB to resubmit the reported information. The corrected information was used in this Evaluation. Aggregate 1997 market share data was not adjusted to reflect the changes, as the changes would not materially impact STNB's market share performance. Refer to Appendix A for additional details regarding the scope of this Evaluation.

The following evaluation of STNB's lending performance focuses primarily on home mortgage and small business lending. Limited weight was placed on STNB's consumer lending record.

#### ***Lending Activity/Assessment Area Concentration***

STNB's lending levels reflect an excellent responsiveness to credit needs in the Laredo MSA. During the evaluation period, STNB's loan growth (13%) exceeded the trend of its most similarly situated competitor (4%) by more than three times. Both banks reported similar growth rates in total assets over the same period. Since the last evaluation of CRA performance, STNB's loan-to-deposit ratio has averaged 51% and exceeds that of its primary competitor at

47%. STNB also reports a favorable level of gross loans outstanding, relative to its size. As of September 30, 1997, STNB accounted for 3.7% of gross loans outstanding among all banks headquartered in the Laredo MSA versus its 3.5% share of total assets.

During the evaluation period, STNB originated 2,556 reportable loans totaling approximately \$41 million within the Laredo MSA. Available market share data for 1996 indicates that STNB was the third leading commercial bank (sixth among all originators) in the origination of HMDA reportable loans within the Laredo MSA, with 6% of the market. STNB's market share clearly exceeds that of its most comparable competitor with only 1%. While STNB is a relatively insignificant originator of home purchase and refinance loans, STNB ranks as the number one home improvement lender in the Laredo MSA with 26% of the market. This ranking is impressive, given STNB's size in comparison to the two regional banks and large mortgage companies which dominate the market. STNB's market share of small business loan originations at 5% ranks them fourth among commercial banks (fifth among all originators) in the market and is comparable to that of its primary competitor.

STNB failed to report the origination of small business and consumer loans outside of the Laredo MSA. As a result, the total volume of loans originated by STNB during the evaluation period and their distribution inside and outside of the Laredo MSA is not available for those products. However, data regarding home mortgage loan originations is available. That data indicates that a substantial majority (92%) of home mortgage loans were made within the Laredo MSA. Based on a review of additional data provided by STNB during this evaluation and the limited scope of its operations, it is expected that the percentage of small business and consumer loans originated within the Laredo MSA would be similar to that of home mortgage loans.

<b>Volume of Reportable Loan Originations in 1996 and YTD 1997</b>						
<b>Product</b>	<b>Total Originations</b>		<b>Within the Laredo MSA</b>			
	<b>Number</b>	<b>\$ (000)</b>	<b>Number</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
Home Purchase	42	\$2,376	39	93%	\$2,198	93%
Refinance	15	\$662	15	100%	\$662	100%
Home Improvement	279	\$1,950	254	91%	\$1,834	94%
Multifamily	7	\$3,865	7	100%	\$3,865	100%
Total Home Mortgage Loans	343	\$8,853	315	92%	\$8,559	97%
Total Small Business Loans	*	*	301	*	\$10,284	*
Motor Vehicle Loans	*	*	348	*	\$8,646	*
Other Secured Loans	*	*	939	*	\$9,572	*
Other Unsecured Loans	*	*	644	*	\$2,566	*
Total Consumer Loans	*	*	1,940	*	\$22,440	*
<b>Grand Total</b>	*	*	2,556	*	\$41,283	*

Source: HMDA information and small business loan data collected by the bank. \* Due to a reporting error by STNB, this data was not available.

### ***Geographic Distribution of Loans***

## Home Mortgage Loans

The geographic distribution of STNB's home mortgage loan originations in 1996 and YTD 1997 reflects excellent dispersion throughout Laredo MSA geographies. As the origination of home improvement loans represents 81% of all home mortgage loan originations, more weight was given to the distribution of this loan product. With the exception of one moderate-income census tract, all geographies were successfully penetrated. The census tract that was not penetrated consists primarily of the Laredo airport. Overall, the dispersion of home mortgage loans closely resembles the distribution of census tract characteristics established by 1990 census data. The percentage of all home mortgage loans made in moderate-income census tracts represents 93% of the percentage of owner-occupied housing units that are within these tracts. The percentage of home improvement loans is higher at 100%. The following table illustrates the geographic distribution of home mortgage originations by number of loans.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within the Laredo MSA By Income Level of the Census Tracts								
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	0	0%	11	46%	8	33%	5	21%
Census Tracts Penetrated (% of tracts in income group)	NA	NA	10	91%	8	100%	5	100%
Owner-Occupied Hsg Units	NA	NA	8,293	40%	6,064	29%	6,546	31%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	NA	NA	12	31%	10	26%	17	44%
Refinance	NA	NA	5	33%	5	33%	5	33%
Home Improvement	NA	NA	101	40%	90	35%	63	25%
Multi-family	NA	NA	0	0%	2	29%	5	71%
Grand Total	NA	NA	118	37%	107	34%	90	29%

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

Based on 1996 aggregate HMDA data, STNB's market share of all home mortgage loans originated in moderate-income census tracts greatly exceeds its share of the overall market. The moderate share represents 128% of STNB's overall market share. STNB ranks as the number one home improvement lender in the Laredo MSA to borrower's in moderate-income tracts, with

a substantial 28% of the market. STNB's market share of home improvement loans originated in moderate-income tracts represents 108% of STNB's overall market share for home improvement loans.

Market Share of Home Mortgage Loan Originations in 1996 Within the Laredo MSA By Income Level of the Census Tract								
Loan Product	Total Originations		Overall		Low-Income		Mod-Income	
	Number	\$ (000)	Market Rank	Market Share	Market Rank	Market Share	Market Rank	Market Share
Home Purchase	29	\$1,589	19	1.21%	NA	NA	16	1.21%
Refinance	7	\$354	15	1.63%	NA	NA	11	2.86%
Home Improvement	151	\$1,293	1	25.72%	NA	NA	1	27.80%
Multifamily	4	\$540	2	21.05%	NA	NA	NR	0.00%
Grand Total	187	\$3,236	7	5.57%	NA	NA	4	7.12%

Source: 1996 Aggregate HMDA Data.

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

### Small Business Loans

The geographic distribution of STNB's small business loan originations in 1996 and YTD 1997 reflects a good dispersion throughout the Laredo MSA. While the proportion of the number of small loans to businesses made by STNB in moderate-income census tracts is significantly lower than the proportion of the businesses located in those tracts, the proportion of dollars lent exceeds the proportion of the businesses located in those tracts. This indicates that, while loaning to a proportionately smaller number of businesses in moderate-income tracts, STNB is making larger loans to those businesses. The average loan to businesses in moderate-income tracts is \$61 thousand versus \$25 thousand in middle- and upper-income tracts. A substantial 94% of loans

originated in moderate-income tracts are to businesses with revenues of less than \$1 million. This level significantly exceeds the percentage of businesses in these tracts with revenues of less than \$1 million.

<b>Distribution of Small Business Loan Originations in 1996 and YTD 1997</b>									
<b>Within the Laredo MSA</b>									
<b>By Income Level of the Census Tracts</b>									
<b>Census Tract Data</b>		<b>Low-Income</b>		<b>Mod-Income</b>		<b>Middle-Income</b>		<b>Upper-Income</b>	
Census Tracts		0	0%	11	46%	8	33%	5	21%
Census Tracts Penetrated (% of tracts in income group)		NA	NA	10	91%	8	100%	5	100%
Number of Businesses		NA	NA	1,487	38%	935	24%	1,465	38%
<b>Loan Product</b>		<b>#/\$</b>	<b>%</b>	<b>#/\$</b>	<b>%</b>	<b>#/\$</b>	<b>%</b>	<b>#/\$</b>	<b>%</b>
Small Business	#	NA	NA	70	23%	104	35%	127	42%
	\$	NA	NA	\$4,295	42%	\$2,377	23%	\$3,611	35%

Source: 1990 U.S. Census, Dunn and Bradstreet Business Demographic Data and small business loan data collected by the bank.

Based on 1996 aggregate small business data, the percentage of the number of STNB's loans originated in moderate-income census tracts (22%) exceeds the aggregate for all reporters in the Laredo MSA (21%). The percentage of the dollars of STNB's loans originated in moderate-income census tracts (43%), however, greatly exceeds the aggregate market (15%). As a result, STNB's market share of small loans to businesses originated in moderate-income census tracts exceeds its share of the overall market. The moderate share represents 106% of STNB's overall market share. STNB's market share for moderate-income census tracts greatly exceeds that of its most comparable competitor (1.44%).

<b>Market Share of Small Business Loan Originations in 1996</b>								
<b>Within the Laredo MSA</b>								
<b>By Income Level of Census Tract</b>								
<b>Loan Product</b>	<b>Total Originations</b>		<b>Overall</b>		<b>Low-Income</b>		<b>Mod-Income</b>	
	<b>Number</b>	<b>\$ (000)</b>	<b>Market Rank</b>	<b>Market Share</b>	<b>Market Rank</b>	<b>Market Share</b>	<b>Market Rank</b>	<b>Market Share</b>
Small Business	103	\$3,929	5	5.20%	NA	NA	5	5.52%

Source: 1996 Aggregate Small Business Data. \*Rank is based on total number of loans and total \$ amount of loans made by each institution.

## Consumer Loans

The geographic distribution of STNB's consumer loan originations in 1996 and YTD 1997 reflects good dispersion throughout the Laredo MSA. As the origination of secured and unsecured consumer loans represent 82% of all consumer loan originations, more weight was given to the distribution of those loan products. Overall, the dispersion of loans reasonably resembles the distribution of census tract characteristics established by 1990 census data. The percentage of all consumer loans made in moderate-income census tracts represents 70% of the percentage of families that are within these tracts. The percentage of secured and unsecured consumer loans, however, is higher at 75%. The following table illustrates the geographic distribution of consumer loan originations by number of loans.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Laredo MSA By Income Level of the Census Tracts								
Census Tract Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	0	0%	11	46%	8	33%	5	21%
Census Tracts Penetrated (% of tracts in income group)	NA	NA	11	100%	8	100%	5	100%
Number of Families	NA	NA	11,993	40%	8,433	28%	9,309	31%
Loan Product	#	%	#	%	#	%	#	%
Motor Vehicle	NA	NA	81	23%	110	32%	157	45%
Other Secured	NA	NA	277	30%	339	36%	323	34%
Other Unsecured	NA	NA	190	29%	203	32%	251	39%
Grand Total	NA	NA	548	28%	652	34%	731	38%

Source: 1990 U.S. Census and consumer loan data collected by the bank.

### *Distribution of Borrowers within the Laredo MSA*

#### Home Mortgage Loans

The distribution of STNB's home mortgage loan originations reflects an excellent penetration among borrowers of different income levels in the Laredo MSA. As the origination of home improvement loans represents 81% of all home mortgage loan originations, more weight was given to the distribution of this loan product. STNB's distribution reflects an excellent record of serving the home mortgage needs of low- and moderate-income families within the Laredo MSA. The percentage of all home mortgage loans made to low- and moderate-income families represents 60% and 129%, respectively, of the percentage of families that are within these income categories. The percentage of home improvement loans made to low- and moderate-income families, however, is higher at 72% and 141%, respectively, of the percentage of families that are within these income categories. The lower percentage penetration of low-income families is reflective of the lack of affordable housing within the MSA (refer to the Description of the Assessment Area section of this Evaluation for details). As such, opportunities to make home

mortgage loans to low-income families are limited. The following table illustrates the geographic distribution of mortgage originations by number of loans.

Distribution of Home Mortgage Loan Originations in 1996 and YTD 1997 Within the Laredo MSA By Income Level of the Borrower								
Demographic Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Characteristics of Families	7,324	25%	4,955	17%	4,919	17%	12,539	41%
Loan Product	#	%	#	%	#	%	#	%
Home Purchase	0	0%	7	19%	4	11%	26	70%
Refinance	0	0%	0	0%	3	20%	12	80%
Home Improvement	44	18%	59	24%	44	18%	96	40%
Grand Total *	44	15%	66	22%	51	17%	134	45%

Source: 1997 HUD updated MFI and HMDA information.

\* The totals do not include 13 loans to borrowers with unknown incomes.

Based on 1996 aggregate HMDA data, STNB's market share of all home mortgage loans originated to low- and moderate-income families greatly exceeds its overall market share. The low-income share represents 372% and the moderate-income share 126% of STNB's overall market share. Home improvement lending accounts for the majority of this performance. STNB ranks as the number one lender of home improvement loans to low-income families in the Laredo MSA with over half of all loans made in this category and three times the total of the number two lender. STNB also ranks as the number one lender of home improvement loans to moderate-income families. STNB's substantial market shares are impressive, given the fact that they are only the fourth largest bank (behind two large regional banks and an affiliate of a super-regional) and control only 6% of the commercial bank deposits in the Laredo MSA.

Market Share of Home Mortgage Loan Originations in 1996 Within the Laredo MSA By Income Level of the Borrower								
Loan Product	Total Originations		Overall		Low-Income		Mod-Income	
	Number	\$ (000)	Market Rank	Market Share	Market Rank	Market Share	Market Rank	Market Share
Home Purchase	29	\$1,589	19	1.68%	NR	0.00%	11	1.66%
Refinance	7	\$354	15	1.87%	NR	0.00%	NR	0.00%
Home Improvement	151	\$1,293	1	26.58%	1	51.02%	1	32.61%
Grand Total	187	\$3,236	7	5.48%	1	25.77%	5	8.68%

Source: 1996 Aggregate HMDA Data.

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

## Small Business Loans

The distribution of small loans to business originated by STNB reflects a good responsiveness to the credit needs of small businesses within the Laredo MSA. Approximately 93% of the number and 45% of the dollars of small loans to businesses were in amounts less than \$100 thousand. In addition, approximately 95% of the dollar and number of loans originated by STNB were to businesses with annual revenues of less than \$1 million. This compares favorably to the distribution of businesses within the MSA.

Distribution of Small Business Loan Originations in 1996 and YTD 1997 Within the Laredo MSA By Loan Size and Business Revenues								
Loan Size					Annual Revenues < \$1 Million			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	279	93%	\$4,667	45%	264	95%	\$4,342	93%
\$100,000 to \$250,000	17	6%	\$2,869	28%	16	94%	\$2,723	95%
\$250,000 to \$1,000,000	5	2%	\$2,747	27%	5	100%	\$2,747	100%
Totals	301	100%	\$10,283	100%	285	95%	\$9,812	95%
<b>Distribution of Businesses in the MSA by Annual Revenues of the Business:</b>				< 1 Million	65%	*As a percentage of loans of the size category		
				> 1 Million	12%			
				Unknown	23%			

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

Based on 1996 aggregate small business data, the percentage of small loans to businesses originated by STNB in amounts of \$100 thousand or less is 105% of the percentage of loans made by the aggregate market in amounts of \$100 thousand or less. STNB's market share for both loans to businesses with revenues less than or equal to \$1 million and with loan amounts less than or equal to \$100 thousand, exceeds its overall market share in the Laredo MSA.

Market Share of Small Business Loan Originations in 1996 Within the Laredo MSA By Business Size and Loan Amount								
Loan Product	Total Originations		Overall		Revenues < or = \$1 million		Loan Amount < or = \$100,000	
	Number	\$ (000)	Market Rank	Market Share	Market Rank	Market Share	Market Rank	Market Share
Small Business	103	\$3,929	5	5.20%	5	5.99%	5	5.46%

Source: 1996 Aggregate Small Business Data. \*Rank is based on total number of loans and total \$ amount of loans made by each institution.

## Consumer Loans

The distribution of STNB's consumer loan originations reflects a good dispersion among borrowers of different income levels in the Laredo MSA. Overall, the dispersion of loans reasonably resembles the distribution of families throughout the assessment area. The distribution reflects a good record of serving the consumer loan needs of low- and moderate-income families within the Laredo MSA. The percentage of all consumer loans made to low- and moderate-income families represents 52% and 100%, respectively, of the percentage of families that are within these income categories. The following table illustrates the distribution of consumer loan originations by number of loans.

Distribution of Consumer Loan Originations in 1996 and YTD 1997 Within the Laredo MSA By Income Level of the Borrower								
Demographic Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Number of Families	7,324	25%	4,955	17%	4,919	17%	29,735	42%
Loan Product	#	%	#	%	#	%	#	%
Motor Vehicle	24	7%	49	15%	60	19%	191	59%
Other Secured	122	15%	158	19%	167	20%	369	45%
Other Unsecured	73	9%	88	11%	127	16%	295	36%
Grand Total	219	13%	295	17%	354	21%	855	50%

Source: 1990 U.S. Census and consumer loan data collected by the bank.

\* The totals do not include 208 loans to borrowers with unknown incomes.

### *Community Development Lending*

STNB has not funded any community development loans in the Laredo MSA. It is recognized that STNB's capacity for community development lending is limited by its asset size, as community development loans are primarily made for relatively large amounts. Positive consideration is given to the fact that a portion of STNB's loan originations, reported and considered as HMDA or small business loans, have community development characteristics.

### *Product Innovation and Flexibility*

The use of flexible and innovative lending practices by STNB is limited. STNB offers a Low Doc-Low Cost home improvement loan program. Loans originated under this program have minimal documentation requirements and lower fees, with title search and recording fees the only charges incurred. STNB also offers small business loans guaranteed by the U.S. Small Business Administration (SBA). At the time of this evaluation, STNB reported 45 SBA loans currently funded with original amounts totaling \$5.4 million. Twenty-one of these loans approximating \$1.8 million were funded since the last evaluation of CRA performance. Loans

originated under both programs have already been considered in the evaluation of home mortgage and small business lending under the Lending Test portion of this Evaluation. Neither of the programs is considered innovative.

## **INVESTMENT TEST**

STNB's community development investments for 1996 and 1997 are limited to twelve grants totaling \$11,390. This level of investment reflects a very poor responsiveness to the community development needs of the Laredo MSA.

Community development investment opportunities in the Laredo MSA are considered limited. Opportunities that are available include low- and moderate-income multifamily housing projects and single family residential ownership. Opportunities for investments in the form of grants, however, are readily available in the MSA. It is recognized that STNB competes with two large regional banks headquartered in Laredo, that dominate the market, and a number of smaller institutions for qualifying community development investments in the Laredo MSA. Refer to the Description of Assessment Area section of this Evaluation for additional performance context information.

STNB's grants include \$2,500 to the Laredo-Webb Neighborhood Housing services for operating expenses and \$5,500 to the United Way of Laredo. Additional grants were made, in similar amounts, to the Bethany House (provides food for the homeless), the Laredo Development Foundation, La Gloria Development Corporation and two grants to the American Little League (serving primarily low-income youth).

## **SERVICE TEST**

### ***Retail Banking Services***

The availability and effectiveness of STNB's service-delivery systems in the Laredo MSA are adequate. STNB's branch system is commensurate with its presence in the market and scope of operations. The market is dominated by branches of the two locally headquartered regional banks that hold the majority of commercial bank deposits within the Laredo MSA.

STNB's main office is located in a middle-income tract. STNB's only branch is located in an upper-income tract. Both are located within the City of Laredo. The lack of branches in moderate-income geographies has not hampered STNB's efforts to reach low- and moderate-income families within the Laredo MSA, as evidenced by performance under the Lending Test portion of this Evaluation. STNB provides a reasonable range of services at both offices. No branches were opened or closed over the last two years in the Laredo MSA.

Accessibility is augmented by alternative delivery systems available to customers throughout the Laredo MSA. STNB offers two full-service ATMs at both office locations that allow for 24-hour banking. In addition, STNB's customers have free access to all eight of its affiliate's ATMs in

the Laredo MSA. STNB also offers telephone banking and banking by mail. Banking information and services offered by telephone include funds transfers, check reorders, reporting lost or stolen ATM cards and loan application processing.

### ***Community Development Services***

STNB provides an adequate level of community development services in the Laredo MSA. STNB officers and employees provide bilingual financial planning, home ownership and small business counseling to individuals and groups throughout the Laredo MSA, primarily focusing on low- and moderate-income persons and families. Examples include the following:

**Laredo/Webb NHS, Inc.** - STNB officers and employees regularly contribute their financial expertise/technical assistance to this non-profit organization to assist in the application for grants, the development of home buyer counseling courses and the development of loan programs. An STNB officer is on the Board and serves on the loan committee of the organization.

**Laredo Development Foundation** - STNB has been a special advisor on credit needs of small businesses through the Foundation. STNB expertise in loans guaranteed by the SBA has led to several presentations on credit needs of small business owners.

**Consumer Education Fair** - STNB participated in this informational fair sponsored by the Housing Authority of the City of Laredo whose primary goal is affordable housing. The fair was open to all Laredo residents but targeted low- and moderate-income families.

**Women-in-Business** - STNB participated in a seminar exploring opportunities for access to small business capital for women. The seminar was sponsored by the SBA in partnership with the Laredo Development Fund/Small Business Development Center and the Laredo Business Professional Women Association. A STNB officer discussed details of preparing small business loan applications.

STNB also offers several low-cost checking accounts in an effort to reach the significant unbanked low- and moderate-income population in the Laredo MSA. Each is available with a \$100 minimum opening deposit. The *Just Write Checking Account* requires no minimum balance, has no monthly service charge, and has unlimited check writing privileges without a per check fee. In addition, the first order of checks is provided at no cost. The *Low Cost Account* requires no minimum deposit. A nominal fee is charged each month and per check fees are assessed after the first twenty checks in a statement cycle.

All of the community development services discussed above are responsive to credit and community development needs in the Laredo MSA. None, however, are considered innovative.

## **Fair Lending Review**

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

## **Appendix A: Scope of Examination**

The scope of this evaluation focused on STNB's activities in the Laredo MSA assessment area. STNB opened a branch in Eagle Pass on September 15, 1997, designating Maverick County as the associated assessment area. Given the limited time in operation prior to commencement of this evaluation, performance under the lending, investment and service tests in the Maverick County assessment area is not included in this Performance Evaluation.

The CRA Examination Procedures section of the *Comptroller's Handbook* were used to perform this evaluation. Activities since the prior evaluation of CRA performance February 2, 1995 through September 30, 1997 were evaluated. The scope of the evaluation of STNB's lending performance focused on home mortgage, small business and consumer loan originations in 1996 through September 30, 1997. Consumer loans include loans secured by motor vehicles, other secured loans and other unsecured loans. Even though the evaluation period covers a time frame greater than 1996 and year-to-date 1997, the evaluation of lending performance focused on activity for these time periods as an indicator of STNB's overall performance.