



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

November 28, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Mineola
Charter Number 5127**

**200 N. Pacific
Mineola, TX 75773**

**Comptroller of the Currency
Longview Field Office
1800 West Loop 281 Suite 306
Longview, TX 75604**

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 “Needs to Improve.”

The First National Bank of Mineola needs to improve its record of meeting community credit needs. This rating is based on the following:

- The bank's loan-to-deposit ratio does not meet standards based on the bank’s performance context and lending opportunities within the assessment area.
- A substantial majority of the bank's loans are extended within its assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels.

DESCRIPTION OF INSTITUTION

The First National Bank of Mineola, Texas (FNB) is a \$30 million bank which is wholly owned by First Mineola, Inc. The bank has one full service location in Mineola with no automatic teller machines. As of September 30, 2006, loans totaled \$6.559 million and represented 22% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio.

Loan Category	\$ (000)	%
Residential Real Estate Loans	3,416	52.08%
Consumer Loans	2,110	32.17%
Commercial Real Estate Loans	625	9.53%
Commercial Loans	408	6.22%
Total	6,559	100.00%

There are no legal impediments or other factors which inhibit the bank's ability to meet the credit needs of the community. The bank was rated “Satisfactory” during the prior CRA Examination dated September 3, 2002.

DESCRIPTION OF WOOD COUNTY

The Board has designated Wood County as its assessment area. This county includes the communities of Mineola, Quitman, Hawkins, Winnsboro, Alba and other small rural communities. Each of the census tracts in this area have been designated as middle income areas. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income geographies.

The following table provides a description of the bank's assessment area based on census data and 2005 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF WOOD COUNTY	
<i>Population</i>	
Number of Families	10,663
Number of Households	14,578
<i>Geographies</i>	
Number of Census Tracts/BNA	8
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	100.00%
% Upper-Income Census Tracts/BNA	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	36,380
2005 HUD-Adjusted MFI	42,000
<i>Economic Indicators</i>	
Unemployment Rate	3.60%
2000 Median Housing Value	67,536
% of Households Below Poverty Level	14.00%

The bank's designated assessment area has a total population of 36,752. The distribution of families by income level, regardless of census tract location, consists of the following: 16.57% are low income, 17.06% are moderate income, 24.26% are middle income, and 42.11% are upper income. Major employers include Wal-Mart Supercenter, Mineola ISD, American Recreation, and Brookshire's Foodstore. Competition within the assessment area is strong with several banks, financial institutions and mortgage companies located throughout the assessment area. The local economy is considered stable with an unemployment rate of 3.60%.

Contacts with a local business organization revealed the primary community credit needs for the assessment area include loans for previously owned vehicles and first time homebuyers programs. The contacts also stated the local financial institutions offer products that help meet all the credit needs of the communities.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's overall lending performance needs to improve. While the bank's lending inside the assessment area and loans to borrowers of different income levels are reasonable, the bank's loan-to-deposit ratio is significantly less than other banks in the assessment area. Without sufficient loan volume, less consideration is given to other rating factors when determining the bank's performance under the Community Reinvestment Act. The low loan-to-deposit ratio is a

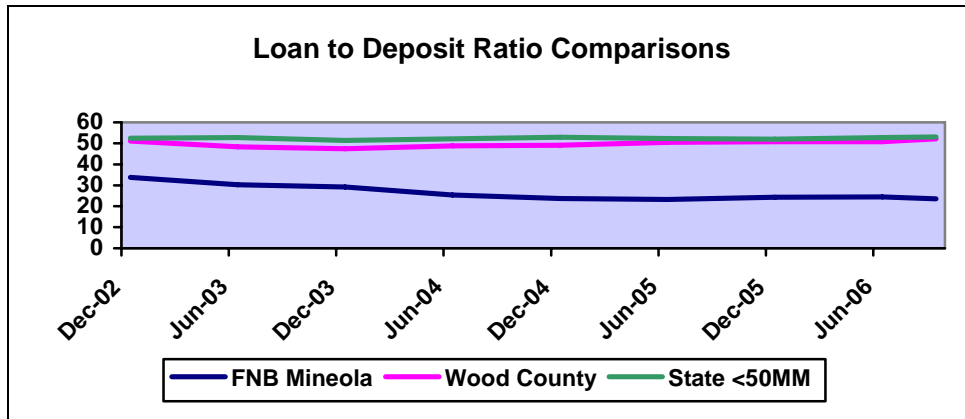
result of a conservative lending philosophy that has been in place for many years and management has not augmented performance through community development activity. The level of lending activity is not consistent with the bank's financial capacity, local economic conditions, and the credit needs of the community.

LOAN-TO-DEPOSIT RATIO

The loan-to-deposit ratio of FNB is less than satisfactory and needs to improve based on the performance context and the assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 26.37% with a decline from 34% to 23% since the prior CRA examination in September 2002. The average loan-to-deposit ratio of assessment area banks with offices in Mineola for the same time period was 49.52%.

Institution	Assets (000s) (as of 9/30/06)	Average LTD Ratio
First National Bank of Mineola	30,000	26.37%
Mineola Community Bank, Mineola	130,000	45.92%
Wood County National Bank, Quitman	57,000	52.41%
Bank Texas, Quitman	148,000	73.36%

The following table illustrates the bank's loan-to-deposit ratio compared to other banks located in the assessment area with offices in Mineola and to national banks in Texas with total assets of less than \$50 million.



No identified factors prohibit the bank from expanding their lending activities. Management's lending culture and conservative philosophy are the primary reasons for the low loan-to-deposit ratio. FNB does not have any qualified investments or community development loans to compensate or supplement the low ratio. The bank did begin a program to originate and sell residential loans on the secondary market in 2003 in order to meet the credit needs of borrowers that may not meet the bank's conservative underwriting standards. However, the number and

dollar amount of loans under this program would not significantly impact the bank's loan-to-deposit ratio.

LENDING IN ASSESSMENT AREA

A substantial majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 23 residential mortgages and 30 consumer loans which originated since September 2002. This sample reflected that approximately 87% of the number of loans and 88% of the dollar amount of loans in our sample were extended within the bank's assessment area. The impact of the bank's lending within its assessment area is limited by the very low overall lending level. The breakdown by loan category is illustrated in the following table.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	21	91.30	1,711	89.13	2	8.70	209	10.87
Consumer	25	83.33	337	84.20	5	16.67	63	15.80
Total Reviewed	46	86.79	2,048	88.28	7	13.21	272	11.72

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels. The impact of this reasonable distribution is limited by the bank's overall low level of lending. The First National Bank's primary product lines are residential and consumer, therefore, each of these loan types was included in this review. Commercial loans make up a small percentage of the loan portfolio and were not included in this analysis.

The distribution of residential purchase loans reflects a reasonable distribution among borrowers of different income levels. The distribution of home purchase generally approximates the income characteristics of the assessment area. While home purchase loans to low-income families are below the level compared to the demographics of the assessment area, home purchase loans by moderate-income families exceeds the percentage by number of moderate-income families. Borrowing for home purchases by low-income individuals is limited due to the low level of affordable housing stock available in the area. Additionally, 14% of the population residing in the assessment area is below poverty level while the median value of a home is \$68M.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	16.57		17.06		24.26		42.11	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	4.76	0.92	19.05	24.29	14.29	12.71	61.90	62.08

The distribution of consumer loans reflects a good penetration among borrowers of different income levels. The distribution of loans to low and moderate income borrowers exceeds the percentage of low and moderate income households in the assessment area.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	21.20		15.33		19.68		43.79	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	36.00	27.83	20.00	16.13	12.00	9.24	32.00	46.80

Geographic Distribution of Loans

All census tracts within the bank's assessment area are middle-income geographies. There are no low- or moderate-income geographies in the assessment area. Therefore, we did not complete a review of the bank's geographic distribution of loans.

Responses to Complaints

Management has not received any written complaints related to CRA performance since the prior CRA examination.

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.