



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**January 29, 2007**

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

**The East Texas National Bank of Palestine  
Charter Number 12556**

**207 West Spring Street  
Palestine, TX 75801**

**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 Satisfactory.**

East Texas National Bank (ETNB) of Palestine has a satisfactory record of meeting community credit needs. This rating is based on the following:

- The bank's loan-to-deposit is reasonable based on its size and complexity.
- A majority of the bank's loans are extended within its assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

## **DESCRIPTION OF INSTITUTION**

East Texas National Bank is a \$118 million bank which is wholly owned by East Texas National, Inc. The bank is located at 207 West Spring Street, Palestine, Texas and has two full service branch locations in Huntsville and Mexia. As of December 31, 2006, loans totaled \$49 million and represented 42% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate Loans	14,005	28.75
Commercial Loans	15,130	31.08
Agriculture Real Estate Loans	3,122	6.41
Agriculture Loans	738	1.52
Residential Real Estate Loans	7,218	14.83
Consumer Loans	8,475	17.41
<b>Total</b>	<b>48,688</b>	<b>100.00%</b>

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 23, 2002.

## **DESCRIPTION OF ASSESSMENT AREAS**

The Board has designated three noncontiguous assessment areas for CRA purposes. They include the locations in which the bank has offices, and are Anderson County (Palestine), Walker County (Huntsville), and Limestone County (Mexia). The assessment area as a whole meets the

requirements of the Community Reinvestment Act and does not arbitrarily exclude low and moderate-income geographies. The scope of this Examination included Anderson County and Walker County.

### Anderson County

Anderson County is a rural county located approximately 100 miles from Dallas, Texas and serves as the bank’s assessment area for the Palestine branches. The assessment area has no low-income tracts, one moderate-income tract, eight middle-income tracts, and one upper-income tract. 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.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	11,404
Number of Households	15,673
<i>Geographies</i>	
Number of Census Tracts/BNA	10
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	10%
% Middle-Income Census Tracts/BNA	80%
% Upper-Income Census Tracts/BNA	10%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2005 HUD-Adjusted MFI	\$42,000
<i>Economic Indicators</i>	
Unemployment Rate	2.51%
2005 Median Housing Value	\$57,223
% of Households Below Poverty Level	17.00%

The bank's designated assessment area has a total population of 55,109. The distribution of families by income level, regardless of census tract location, consists of the following; 19.34% are low income, 16.84% are moderate income, 22.26% are middle income, and 41.56% are upper income. Major employers in Anderson County are the Texas Department of Correction, Wal Mart Distribution Centers, and Palestine Independent School District, as well as oil field related companies and railroad repair. Competition in Morris County is moderate with branches of other banks and credit unions in the county. The local economy is considered stable with an unemployment rate of 2.51%.

A contact with a local business organization in Palestine revealed the primary community credit needs for the assessment area are residential mortgages and consumer loans.

## Walker County

Walker County is a rural county located approximately 70 miles from Houston, Texas and serves as the bank's assessment area for the Huntsville branch. The assessment area has no low-income tracts, one moderate-income tract, four middle-income tracts, and three upper-income tracts. 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.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<i>Population</i>	
Number of Families	11,533
Number of Households	18,311
<i>Geographies</i>	
Number of Census Tracts/BNA	8
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	12.50%
% Middle-Income Census Tracts/BNA	50.00%
% Upper-Income Census Tracts/BNA	37.50%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2005 HUD-Adjusted MFI	\$42,000
<i>Economic Indicators</i>	
Unemployment Rate	3.52%
2005 Median Housing Value	\$68,931
% of Households Below Poverty Level	20.00%

The bank's designated assessment area has a total population of 61,758. The distribution of families by income level, regardless of census tract location, consists of the following: 16.80% are low income, 15.54% are moderate income, 19.15% are middle income, and 48.51% are upper income. Major employers in Walker County are the Texas Department of Correction, Sam Houston State University, the City of Huntsville and Huntsville Independent School District. Competition in Walker County is moderate with branches of other banks and credit unions in the county. The local economy is considered stable with an unemployment rate of 3.52%.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's overall lending performance is satisfactory. The bank's loan to deposit ratio is reasonable and a substantial majority of loans are within the bank's assessment area. Additionally, the distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. Lastly, the geographic distribution of loans reflects a reasonable dispersion throughout both assessment

areas.

### LOAN-TO-DEPOSIT RATIO

The loan-to-deposit ratio of ETNB is reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 50.63% since the prior CRA examination in September 2002. The average loan-to-deposit ratio of banks within the assessment area, regardless of size, for the same time period, was 57.98%.

Institution	Assets (000s) (as of 9/30/06)	Average LTD Ratio
East Texas National Bank	113,663	50.63%
First National Bank of Huntsville	279,226	46.18%
First National bank of Mexia	74,433	56.58%
First National Bank	43,426	75.76%
The First State Bank	85,055	80.10%
First State Bank	128,120	71.54%
Farmers State Bank	102,141	48.95%
The Elkhart State Bank	33,010	34.09%

### LENDING IN ASSESSMENT AREA

A majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 24 residential mortgages, 53 commercial loans and 51 consumer loans which originated since September 2002. The residential mortgage review only encompassed the Palestine Branch as residential lending is not a major lending product at the Huntsville Branch. Due to the bank's location within its assessment area and its focus on lending within this area, the majority of loans in both the Palestine and Huntsville markets were extended within the bank's assessment area. The breakdown by loan category is illustrated in the following table.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	20	83.33	1,659	81.48	4	16.67	377	18.52
Commercial	47	88.68	8,731	94.63	6	11.32	494	5.37
Consumer	41	80.39	257	85.67	10	19.61	43	14.33
Total Reviewed	108	84.38	10,647	99.12	20	15.62	914	0.88

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

#### Anderson County

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. The distribution of home purchase and consumer loans generally approximates the income characteristics of the assessment area. However, the bank's consumer lending activities to low income individuals far exceeds the income characteristics of the assessment area

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19.34		16.84		22.26		41.56	
	% of Number	% of Amount						
	10.00	1.15	15.00	10.20	20.00	13.06	55.00	75.59

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	23.81		15.08		18.85		42.26	
	% of Number	% of Amount						
	42.86	39.23	23.81	22.95	9.52	5.10	23.81	32.72

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 2,448 businesses in the assessment area, although revenue information was not reported for 800 of the businesses. Our analysis was performed based on businesses with reported income. However, this number may not accurately reflect the true distribution of small businesses within the assessment area due to the large number of businesses that did not report revenues. Our sample of commercial loans inside the assessment area revealed a substantial majority of the bank's commercial loans were to businesses with revenues less than one million.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	63.40	3.92
% of Bank Loans in AA #	65.22	34.78
% of Bank Loans in AA \$	28.08	71.92

## Walker County

### 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 and businesses of different sizes. The scope of our review in the Walker County assessment area was only on business and consumer loans. Residential loans were not reviewed as this product is not a primary lending focus. The distribution of consumer loans generally approximates the income characteristics of the assessment area. However, the bank exceeds the income characteristics to low income individuals.

CONSUMER
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Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	24.50		15.08		16.81		43.61	
	% of Number	% of Amount						
	55.00	43.77	15.00	22.46	15.00	21.22	15.00	12.55

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 2,840 businesses in the assessment area, although revenue information was not reported for 977 of the businesses. Our analysis was performed based on businesses with reported income. However, this number may not accurately reflect the distribution of small businesses within the assessment area due to the large number that did not report revenues. Our sample of commercial loans inside the assessment area revealed a substantial majority of the bank's commercial loans were to businesses with revenues less than one million.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	62.08	3.52
% of Bank Loans in AA #	75.00	25.00
% of Bank Loans in AA \$	65.46	34.54

## GEOGRAPHIC DISTRIBUTION OF LOANS

### Anderson County

The distribution of loans reflects a good penetration throughout the assessment area. There were no residential loans in the sample that were extended in the moderate income tract. However, only 4.11% of the housing units are owner occupied in this tract. Furthermore, there are only 1,095 total housing units available.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA owner Occupied	0.00		4.11		95.55		0.35	
	% of Number	% of Amount						
	0.00	0.00	0.00	0.00	95.00	90.36	5.00	9.64

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.00		5.57		93.48		0.95	
	% of Number	% of Amount						
	0.00	0.00	4.76	3.16	95.24	96.84	0.00	0.00

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA	0.00		15.77		84.11		.12	
	% of Number	% of Amount						
	0.00	0.00	8.70	2.87	91.30	97.13	0.00	0.00

## Walker County

The distribution of loans reflects a reasonable penetration throughout the assessment area.

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.00		5.62		46.87		47.52	
	% of Number	% of Amount						
	0.00	0.00	5.00	1.08	25.00	38.74	70.00	60.17

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA	0.00		6.90		56.41		36.69	
	% of Number	% of Amount						
	0.00	0.00	4.17	1.03	37.50	36.63	58.33	62.34

## 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.