



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 06, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Linden
Charter Number 10476**

**124 East Rush
Linden, TX 75563**

**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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

First National Bank of Linden has a satisfactory record of meeting community credit needs. This rating is based on the following:

- The bank's loan-to-deposit ratio 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.

DESCRIPTION OF INSTITUTION

First National Bank of Linden is a \$48 million bank, which is wholly owned by Linden Bancshares. The bank is located at 124 Rush Street, Linden, Texas 75563, with one automated teller machine (ATM) located at 201 North Main Street, Linden, Texas. As of September 30, 2002, loans totaled \$22 million and represented 45% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio.

Loan Category	\$ (000)	%
Commercial Loans	10,377	48%
Residential Real Estate Loans	6,337	29%
Consumer Loans	4,106	19%
Agricultural Loans	988	4%
Total	21,808	100%

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 August 3, 1998.

DESCRIPTION OF ASSESSMENT AREA

The Board has designated the south central portion of Cass County as their assessment area. The designated assessment area is located in block numbering area (BNA) 9506, which is located in the extreme southern part of the county. The BNA includes all of the Linden-Kildare Independent School District, which covers the city of Linden and surrounding rural communities. The assessment area includes no low-income tracts, no moderate-income tracts, 1 middle-income tract and no upper-income tract. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low and moderate-income geographies.

The following table provides a description of the bank's assessment area based on census data and 2001 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	1,789
Number of Households	2,414
<i>Geographies</i>	
Number of Census Tracts/BNA	1
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	24,585
2000 HUD-Adjusted MFI	35,100
<i>Economic Indicators</i>	
Unemployment Rate	2.47%
2000 Median Housing Value	36,800
% of Households Below Poverty Level	27.80%

The bank's designated assessment area has a total population of 6,024. The distribution of families by income level, regardless of census tract location, consists of the following: 25.7% are low income, 18.7% are moderate income, 21.9% are middle income, and 33.7% are upper income. There are no other banks located within First National Bank of Linden's assessment area. However, competition is moderate as there are several banks located in the surrounding communities within Cass County. Major employers in Cass County include Red River Army Depot, Lone Star Steel, Cooper Tire, Georgia Pacific, International Paper Company, Cass County, City of Linden, medical related services and industries and educational facilities. The local economy is considered stable with an unemployment rate of 2.47%.

Contact with the Community Council Director of Housing revealed the need for low-income housing in Cass County. Low-income housing stock is limited in the assessment area. We also

contacted an official from the Linden Area Chamber of Commerce who stated that First National Bank of Linden does a good job in supporting the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio of First National Bank of Linden is reasonable given the bank's size, financial condition and assessment area credit needs. There are no independent banks located in the assessment area which are considered truly comparable to this institution. While the loan to deposit ratio of First National Bank of Hughes Springs is higher, the institution is much larger and has multiple branches located in several counties throughout East Texas. First National Bank of Linden is the depository for Cass County and its loan to deposit ratio is impacted as a result of public funds. This bank's ratio of public deposits is more than 15% of total deposits while the average for the other 3 banks in the county was 5.7% of total deposits as of September 30, 2002. The bank's quarterly average loan-to-deposit ratio was 45.87% since the prior CRA examination in August of 1998. It has increased from a low of 37.92% at the prior CRA examination to the present 49.39%. The average loan-to-deposit ratio of banks within Cass County, regardless of size or location, for the same time period, was 56.54%.

Institution	Assets (000s) (as of 9/30/02)	Average LTD Ratio
First National Bank, Linden	48,000	45.87%
First State Bank, Avinger	11,000	64.49%
Bloomburg State Bank, Bloomburg	18,000	48.74%
First National Bank, Hughes Springs	135,000	67.06%

Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 23 residential mortgages, 30 commercial loans and 29 consumer loans, which originated since September 1998. This sample reflected that approximately 78% of the number of loans and 57% of the dollar amount of loans in our sample were extended within the bank's assessment area. 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	968	91.13	2	8.70	94	8.87
Commercial	22	73.33	551	33.59	8	26.67	1,088	66.41
Consumer	21	72.41	53	89.13	8	27.59	6	10.87
Total Reviewed	64	78.05	1,572	56.94	18	21.95	1,189	43.06

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. First National Bank of Linden's primary product lines are commercial, residential and consumer loans. Our sample of loans inside the assessment area included 21 residential loans totaling \$968M, 22 commercial loans totaling \$551M, and 21 consumer loans totaling \$53M. The distribution of home purchase and consumer loans generally approximates the income characteristics of the assessment area. While home purchase loans to low-income families are at a lower level compared to the demographics of the assessment area, loans to moderate-income families exceed the income characteristics of the assessment area. Borrowing for home purchases by low-income individuals is limited due to the low level of affordable housing stock available in the area.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	25.7		18.7		21.9		33.7	
	% of Number	% of Amount						
	19.05	9.60	23.81	16.78	23.81	21.21	33.33	52.40

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	30.2		15.7		16.6		37.5	
	% of Number	% of Amount						
	52.38	43.46	14.29	11.30	9.52	6.10	23.81	39.14

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 187 businesses in the assessment area with revenues less than \$1 million. This number represents 74.21% of all businesses within the assessment area. Our sample of commercial loans inside the assessment area included 22 loans totaling \$551M. The bank's distribution of commercial loans to small businesses exceeds the income characteristics of the assessment area in indicated by the following chart.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses ³	74.21	5.16
% of Bank Loans in AA #	90.91	9.09
% of Bank Loans in AA \$	85.39	14.61

Geographic Distribution of Loans

A geographic analysis of lending activity within the assessment area was not performed. There are no low or moderate-income geographies located in the BNA; therefore, an analysis would not be meaningful.

Responses to Complaints

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

Fair Lending Review

An analysis of 1998 through 2002 was performed according to the OCC's risk based fair lending approach. Based on its analysis of the 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 exam was performed in 1998.