



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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## **PUBLIC DISCLOSURE**

**September 23, 2002**

### **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.**

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## INSTITUTION'S CRA RATING

**This institution is rated Satisfactory.**

The East Texas National Bank of Palestine 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 given the bank's size, financial condition, and assessment area credit needs.
- ❖ A substantial majority of loans are in the bank's assessment areas.
- ❖ The distribution of loans reflects, given the demographics of the assessment areas, reasonable penetration among individuals of different income levels and businesses of different sizes.
- ❖ The geographic distribution of loans reflects excellent dispersion throughout the assessment areas.

## DESCRIPTION OF INSTITUTION

The East Texas National Bank of Palestine is a \$104 million bank with three locations. The main office is located at 207 West Spring Street, Palestine, TX 75801. The bank's branches are located at 101 North McKinney, Mexia, TX 76667, and 1718 11<sup>th</sup> Street, Huntsville, TX 77342. Bank ownership is held through a two-tiered holding company, with East Texas Dover, Inc. owning over 99% of the bank's outstanding stock. East Texas National, Inc. own 100% of East Texas Dover Inc.'s stock. The bank focuses on commercial lending, but offers a wide variety of deposit and loan products. As of June 30, 2002, loans totaled \$51 million and represented 49% of the bank's total assets. 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 at the last Community Reinvestment Act (CRA) examination dated February 23, 1998. 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	15,218	30
Commercial Loans	14,272	28
Consumer Loans	11,138	22
Residential Real Estate Loans	10,393	20
<b>Total</b>	<b>51,021</b>	<b>100</b>

## DESCRIPTION OF ASSESSMENT AREAS

The Board and management have designated three assessment areas for CRA purposes. These designations meet the requirements of the regulation and do not arbitrarily exclude any low- or moderate-income geographies.

The assessment areas include the three counties in which the bank has locations: Anderson, Limestone, and Walker counties. None of these counties are contiguous and none are part of a metropolitan statistical area.

East Texas National Bank's is headquartered in Anderson County in the city of Palestine. Anderson County has ten block numbering areas (BNA's). One of the BNA's is designated moderate-income, six are middle-income, and three are upper-income. There are no low-income BNA's in Anderson County. Of all the families living in Anderson County, 19.5% are low-income, 15.2% are moderate-income, 20.6% are middle-income, and 44.7% are upper-income. The local economy is stable. Major employers include the Texas Department of Criminal Justice (state prison system), the local hospital, and the Wal-Mart Distribution Center. The following table provides a description of the Anderson County assessment area based on 1990 census data and 2001 Department of Housing and Urban Development (HUD) information.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF ANDERSON COUNTY</b>	
<b><i>Population</i></b>	
Number of Families	10,951
Number of Households	14,297
<b><i>Geographies</i></b>	
Number of Census Tracts/BNA	10
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	10%
% Middle-Income Census Tracts/BNA	60%
% Upper-Income Census Tracts/BNA	30%
<b><i>Median Family Income (MFI)</i></b>	
1990 MFI for Anderson County	24,585
2001 HUD-Adjusted MFI	35,800
<b><i>Economic Indicators</i></b>	
Unemployment Rate	2.38%
2001 Median Housing Value	41,623
% of Households Below Poverty Level	18.71%

Walker County includes the city of Huntsville and one of the bank's branches. The county's eight BNA's include two moderate-income BNA's, two middle-income BNA's, and four upper-income BNA's. There are no low-income BNA's in Walker County. Of all the families living in Walker County, 19.3% are low-income, 14.6% are moderate-income, 16.0% are middle-income, and 50.1%

are upper-income. The local economy relies heavily on the Texas Department of Criminal Justice. The following table provides a description of the Anderson County assessment area based on 1990 census data and 2001 HUD information.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b><i>Population</i></b>	
Number of Families	9,672
Number of Households	14,914
<b><i>Geographies</i></b>	
Number of Census Tracts/BNA	8
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	25%
% Middle-Income Census Tracts/BNA	25%
% Upper-Income Census Tracts/BNA	50%
<b><i>Median Family Income (MFI)</i></b>	
1990 MFI for AA	24,585
2001 HUD- Adjusted MFI	35,800
<b><i>Economic Indicators</i></b>	
Unemployment Rate	2.68%
2001 Median Housing Value	57,083
% of Households Below Poverty Level	24.83%

The bank's third location is in Limestone County in Mexia. This county is divided into ten BNA's. Three are designated moderate-income, six are middle-income, and one is upper-income. There are no low-income BNA's in Limestone County. Of the families living in Limestone County, 24.3% are low-income, 16.5% are moderate-income, 17.9% are middle-income, and 41.3% are upper-income. The following table provides a description of the Anderson County assessment area based on 1990 census data and 2001 HUD information.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA</b>	
<b><i>Population</i></b>	
Number of Families	5,639
Number of Households	7,833
<b><i>Geographies</i></b>	
Number of Census Tracts/BNA	10
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	30%
% Middle-Income Census Tracts/BNA	60%
% Upper-Income Census Tracts/BNA	10%
<b><i>Median Family Income (MFI)</i></b>	
1990 MFI for AA	24,585
19XX HUD-Adjusted MFI	35,800
<b><i>Economic Indicators</i></b>	
Unemployment Rate	2.37%
2001 Median Housing Value	38,854
% of Households Below Poverty Level	22.52%

As part of our examination, we contacted a local community leader in Anderson County. The contact revealed no unmet credit needs.

## SAMPLING INFORMATION

Our review focused on the bank's main product line: commercial and commercial real estate loans. We also reviewed residential real estate and consumer loans. For sampling purposes, we combined commercial and commercial real estate loans. We reviewed separate loan samples for each of the three assessment areas. For Anderson County, we sampled 21 commercial loans, 20 residential estate loans, and 28 consumer loans. For Walker County, we reviewed 26 commercial loans, 28 residential real estate loans, and 26 consumer loans. For Limestone County, we reviewed 25 consumer loans. The branch located in Limestone County did not make enough commercial or residential real estate loans since the prior CRA examination to constitute valid samples.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has demonstrated satisfactory performance in meeting the credit needs of the community.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. East Texas National Bank's average loan-to-deposit ratio is comparable to other banks headquartered in the bank's assessment areas. The bank's quarterly average loan-to-deposit ratio is 54% since the prior CRA examination. The average loan-to-deposit ratio for the other nine banks headquartered in the assessment areas is 53%. Of the ten banks headquartered in the assessment areas, East Texas National Bank has the sixth highest loan-to-deposit ratio. The following table provides a breakdown for the banks headquartered in the assessment areas.

<b>Institution</b>	<b>Assets (as of 06/30/02, in 000's)</b>	<b>Average LTD Ratio</b>
The First State Bank, Kosse, TX	57,395	63%
First State Bank of Mexia	79,077	62%
First State Bank, Frankston, TX	96,998	67%
Security State Bank	66,050	27%
Farmers State Bank	80,857	50%
Gulf Coast Bank	56,855	51%
The Elkhart State Bank	36,826	39%
Anahuac National Bank	40,740	54%
First National Bank	37,046	68%
<b><i>East Texas National Bank</i></b>	<b><i>104,796</i></b>	<b><i>54%</i></b>

## Lending in Assessment Area

A substantial majority of loans are in the bank's assessment areas. For both the Anderson and Walker County branches, the bank extended over 90% of both the number and dollar volume of loans within the assessment areas. The bank made 95% of the commercial loans and all of the residential loans sampled in Anderson County. The following table shows the bank's record of lending in Anderson County.

<b>TOTAL LOANS REVIEWED – Anderson County</b>								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	20	95	1,350	93	1	5	103	7
Residential	20	100	807	100	0	0	0	0
Consumer	23	82	329	86	5	18	52	14
Total Reviewed	63	91	2,486	94	6	9	155	6

The bank's strong record of lending in its assessment area is also reflected in its lending in Walker County. Management made 90% of the number and 93% of the dollar volume of all loans sampled in Walker County.

<b>TOTAL LOANS REVIEWED – Walker County</b>								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	23	88	1,225	91	3	12	125	9
Residential	26	93	1,271	97	2	7	34	3
Consumer	23	88	144	84	3	12	28	16
Total Reviewed	72	90	2,640	93	8	10	187	7

The following table shows the bank's record of lending in Limestone County, which includes the bank making 80% of the number and 92% of the dollar volume of consumer loans in the assessment area.

<b>TOTAL LOANS REVIEWED – Limestone County</b>								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	20	80	234	92	5	20	20	8

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

The distribution of loans reflects, given the demographics of the assessment areas, reasonable penetration among individuals of different income levels and businesses of different sizes. The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 1,638 businesses with gross annual revenues less than \$1 million in Anderson County. This represents approximately 88% of all businesses in Anderson County.



We found the bank made 85% of the number of commercial loans we sampled to businesses with gross annual revenues less than \$1 million. This included 80% of the number of loans made to businesses with gross annual revenues less than \$500 thousand.

<b>BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES IN ANDERSON COUNTY</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	88%	12%
% of Bank Loans in AA #	85%	15%
% of Bank Loans in AA \$	81%	19%

Of the 1,884 businesses in Walker County, 1,706, or 91%, have gross annual revenues of less than \$1 million. East Texas National Bank made 78% of the number of commercial loans sampled to businesses with gross annual revenues less than \$1 million.

<b>BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES IN WALKER COUNTY</b>		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	90	10
% of Bank Loans in AA #	78	22
% of Bank Loans in AA \$	69	31

The bank’s record of making residential loans in Anderson and Walker counties is not as reflective of the demographics of the community for low-income families. For Anderson County, the bank made 10% of the sampled loans to low-income families, while 19% of families in the county are considered low-income. For Walker County, none of the loans in the sample were made to low-income borrowers, while 19% of the families in Walker County are designated low-income. Part of the discrepancy is geographic. The bank’s branch is located in an upper-income BNA, apart from the moderate-income tracts where the largest percentage of low-income families resides. The bank also focuses on commercial loans, and does not actively market residential loans. Lower-income individuals are generally less likely to purchase homes than upper-income borrowers. Lower-income borrowers also usually purchase less expensive and often older homes. They tend to borrow smaller amounts and less often. The bank’s record of lending to moderate-income borrowers is reflective of the area’s demographics.

<b>RESIDENTIAL REAL ESTATE</b>								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19		15		21		45	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Anderson County</b>	10	1	15	9	15	9	60	81

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19		15		16		50	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Walker County</b>	0	0	12	6	15	19	73	75

The bank's record of lending regarding consumer loans cannot be exactly determined because the bank does not, as a general practice, collect income information on its consumer borrowers. However, the bank does make a high percentage of consumer loans with small dollar amounts. Of the consumer loans sampled in Anderson County, management originated 35% of the loans with loan amounts less than \$5 thousand. For the Walker and Limestone counties, the percentages were 57% and 45%, respectively.

### Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout the assessment areas. The bank's level of lending in the moderate-income BNA's exceeds the demographics of the assessment areas. There are no low-income BNA's in any of the assessment areas. East Texas National Bank made 55% of the number of commercial loan sampled from Anderson County in moderate-income BNA's. This greatly exceeds the 17% of all businesses in the area being located in those areas.

BUSINESS LOANS IN ANDERSON COUNTY								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		17		69		14	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Anderson County</b>	0	0	55	49	25	8	20	43

The bank made 22% of the number of commercial loans sampled in Walker County in moderate-income BNA's, while only 16% of the businesses in Walker County are located in those areas.

BUSINESS LOANS IN WALKER COUNTY								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		16		26		58	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Walker County</b>	0	0	22	6	17	42	61	52

The bank's level of consumer lending in moderate-income areas also far exceeds the demographics of the areas. Of the consumer loans sampled in Anderson County, 26% of the number were made in moderate-income BNA's, versus 6% of the number of assessment area households located in the moderate-income BNA's.

CONSUMER LOANS IN ANDERSON COUNTY								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Households	0		6		70		24	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Anderson County</b>	0	0	26	40	39	32	35	28

The bank made 55% of the number of consumer loans sampled in Limestone County in moderate-income BNA's. Only 23% of the households in Limestone County are in the moderate-income BNA's.

CONSUMER LOANS IN LIMESTONE COUNTY								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Households	0		23		55		22	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Limestone County</b>	0	0	55	51	30	17	15	32

The bank's record of lending in moderate-income areas is not as strong in Walker County, but is still reasonable. East Texas National Bank made 13% of the number of loans sampled in moderate-income BNA's. Moderate-income BNA's contain 19% of the households in the county. The Huntsville branch is located in an upper-income BNA, apart from the moderate-income BNA's.

CONSUMER LOANS IN WALKER COUNTY								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Households	0		19		24		57	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Walker County</b>	0	0	13	11	43	36	44	53

The bank's record of residential lending in moderate-income areas is strong in Anderson County. East Texas National Bank made 40% of the number of residential loans sampled in Anderson County in moderate-income BNA's. Less than 6% of the owner-occupied properties in Anderson County are located in those areas.

<b>RESIDENTIAL REAL ESTATE LOANS IN ANDERSON COUNTY</b>								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied	0		6		73		21	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Anderson County</b>	0	0	40	45	40	36	20	19

The bank's level of residential lending in moderate-income areas in Walker County is comparable to the demographics of the area. East Texas National Bank made 12% of the number of residential loans sampled in moderate-income BNA's versus 12% of the owner-occupied properties in the county being located in those areas.

<b>RESIDENTIAL REAL ESTATE LOANS IN WALKER COUNTY</b>								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied	0		12		19		69	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
<b>Walker County</b>	0	0	12	11	27	35	61	54

### **Responses to Complaints**

The East Texas National Bank of Palestine has not received any complaints or public comments regarding its CRA performance during this evaluation period.

### **Fair Lending Review**

An analysis of 1998 through 2002 public comments and consumer complaint information 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.

