



SMALL BANK

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

PUBLIC DISCLOSURE

April 23, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Texas National Bank of Jacksonville
Charter Number 18594**

**300 Neches Street
Jacksonville, TX 75766**

**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.

Texas National Bank in Jacksonville, Texas 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 the bank's performance context and lending opportunities within assessment areas.
- A substantial majority of the bank's loans are extended within its assessment areas.
- Credit activity is reasonably distributed to borrowers of different income levels and businesses of different sizes within its assessment areas.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessments areas.

DESCRIPTION OF INSTITUTION

Texas National Bank is a \$103 million bank which is wholly owned by Texas National Bancorporation, a one bank holding company. The bank is located at 300 Neches Street, Jacksonville, Texas and has three full service branch locations. These branches are located in Bullard, Marshall, and Rusk, Texas. As of March 31, 2007, loans totaled \$81.7 million and represented 79.22% of the bank's total assets. The following chart reflects the distribution of the loan portfolio by type of loan:

Loan Category	\$ (000)	%
Commercial Real Estate Loans	29,936	36.65
Commercial Loans	15,577	19.07
Residential Real Estate Loans	23,779	29.11
Consumer Loans	11,688	14.31
Agricultural Real Estate Loans	616	0.75
Agricultural Loans	23	0.03
Other Loans	63	0.08
Total	81,682	100.00%

There are no legal or any other factors which inhibit the bank's ability to meet the credit needs of its communities. The bank was rated "Satisfactory" during the prior CRA Examination dated February 15, 2002.

DESCRIPTION OF ASSESSMENT AREAS

The Board has designated three noncontiguous assessment areas in which offices are located for CRA purposes. The bank has designated the following assessment areas: The northern portion of Cherokee County which includes block numbering areas 9501 through 9509, the southern portion of Smith County which includes Census Tracts 19.04 and 22, and all of Harrison County.

Cherokee County:

Cherokee County is located in central East Texas, bordered on the north by Smith County. The county seat resides in Rusk which is approximately 42 miles south of Tyler, Texas. In addition to Rusk, the county includes the communities of Jacksonville, Alto, and New Summerfield. The designated assessment area has no low-income tracts, three moderate-income tracts, six middle-income tracts, and no high-income tracts. The following table provides a description of the bank's assessment area based on census data and 2006 Department of Housing and Urban Development (HUD) information:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	10,866
Number of Households	14,751
Geographies	
Number of Census Tracts/BNA	9
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	33.33%
% Middle-Income Census Tracts/BNA	66.67%
% Upper-Income Census Tracts/BNA	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2006 HUD-Adjusted MFI	\$43,100
Economic Indicators	
Unemployment Rate	2.31%
2000 Median Housing Value	\$53,120
% of Households Below Poverty Level	17.25%

The bank's designated assessment area has a total population of 41,614. The distribution of families by income level, regardless of census tract location, consists of the following: 20.18% are low-income, 20.99% are moderate-income, 22.08% are middle-income, and 36.75% are upper-income families. Major employers in the area include Jacksonville ISD, Astro Air, Inc., Wal-Mart Supercenter, Stage Stores, CardinalHealth, and local area plant farms. Competition is

moderate with other area financial institutions. The local economy is considered stable with an unemployment rate of 2.31%. Contact with a local business organization in Jacksonville revealed a continuing need for affordable housing.

Harrison County:

Harrison County is also located in East Texas. The city of Marshall serves as the county seat and is approximately 25 miles east of Longview, Texas. Other communities in Harrison County include Hallsville, Waskom, and Uncertain, Texas. The designated assessment area has no low-income tracts, two moderate-income tracts, four middle-income tracts, and three high-income tracts. The following table provides a description of the bank’s assessment area based on census data and 2006 Department of Housing and Urban Development (HUD) information:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	17,084
Number of Households	23,141
Geographies	
Number of Census Tracts/BNA	9
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	22.22%
% Middle-Income Census Tracts/BNA	44.45%
% Upper-Income Census Tracts/BNA	33.33%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2006 HUD-Adjusted MFI	\$43,100
Economic Indicators	
Unemployment Rate	3.39%
2000 Median Housing Value	\$60,106
% of Households Below Poverty Level	16.43%

The bank’s designated assessment area has a total population of 62,110. The distribution of families by income level, regardless of census tract location, consists of the following: 18.23% are low-income, 15.82% are moderate-income, 19.07% are middle-income, and 46.88% are upper-income families. Major employers in the area include Republic Industries, Inc., BICC Cable, Marshall Pottery, Blue Cross and Blue Shield of Texas, and Sabine Mining Company. Banking competition is strong with numerous branches of other financial institutions serving the area. The local economy is considered stable with an unemployment rate of 3.39%. Contacts with local business organizations revealed a need for affordable housing and programs to make loans to small businesses that do not qualify for traditional bank financing.

Smith County:

The bank’s CRA performance was not evaluated for this assessment area. The bank opened a temporary branch location in the assessment area in 2006 and just recently moved into its permanent location in early 2007. Due to the branch office’s limited presence in the assessment area, lending activity has been insignificant. An evaluation of the lending tests in this assessment area would not provide any meaningful data in which to draw conclusions.

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 business of different sizes.

LOAN-TO-DEPOSIT RATIO:

The loan-to-deposit ratio of Texas National Bank is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 69.60% since the prior CRA examination in February 2002. The bank’s loan-to-deposit ratio is 88.83% as of December 31, 2006. The average loan-to-deposit ratio of banks within the assessment area, regardless of size since March 2002 was 71.62%.

Institution	Assets (000s) (as of 12/31/06)	Average LTD Ratio
Austin Bank, N.A., Jacksonville	796,981	84.71%
Community Bank, Longview	71,458	87.80%
The First State Bank, Hallsville	30,916	44.35%
Texas National Bank, Jacksonville	94,415	69.60%

LENDING IN ASSESSMENT AREA:

A substantial majority of the bank’s lending activity is located within its assessment area. Major lending products included residential mortgage, consumer, and business loans. However, a consumer sample was not taken for Harrison County assessment area as consumer loans are not a major lending product for the Marshall branch at this time. We reviewed a sample of 52 residential mortgages, 30 consumer loans, and 60 business loans which originated since February 2002. Our sample reflects that approximately 77% of the number of loans and 62% of the dollar volume 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	43	82.69	3,404	78.71	9	17.31	921	21.29
Consumer	24	80.00	166	76.50	6	20.00	51	23.50
Business	42	70.00	5,621	54.25	18	30.00	4,740	45.75
Total Reviewed	109	76.76	9,191	61.67	33	23.24	5,712	38.33

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

Cherokee 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 consumer loans generally approximates the income characteristics of the assessment area. Home purchase loans to low- and moderate-income families are at a lower level compared to the demographics of the assessment area. However, borrowing for home purchases by low- and moderate-income individuals is limited due to the low level of affordable housing stock available in the area. Also, two state prison facilities located in Cherokee County house a large number of residents considered low income, which limits the bank's ability to extend loans of any type to the low-income population of the county. The tables below reflect the distribution of loans as they relate to borrowers of different income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	20.18%		20.99%		22.08%		36.75%	
	% of Number	% of Amount						
	15.00	11.17	10.00	4.09	10.00	4.01	65.00	80.73

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	23.49%		18.06%		19.03%		39.42%	
	% of Number	% of Amount						
	20.83	5.69	16.67	15.14	29.17	20.19	33.33	58.98

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 2,643 businesses in the assessment area, although revenue information was not reported for 1,036 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 with 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	Unavailable/ Unknown	Total
% of AA Businesses	55.81	4.99	39.20	100
% of Bank Loans in AA #	76.19	23.81	0	100
% of Bank Loans in AA \$	55.66	44.34	0	100

Harrison County:

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. Home purchase loans to low- and moderate-income families are at a lower level compared to the demographics of the assessment area. However, borrowing for home purchases by low- and moderate-income individuals is limited due to the low level of affordable housing stock available in the area. The scope of our review did not include a sample of consumer loans as this product is not a primary lending product for the branch office located in the assessment area. The table below reflects the distribution of loans to borrowers in different income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	18.23%		15.82%		19.07%		46.88%	
	% of Number	% of Amount						
	4.35	2.69	8.70	7.70	21.74	15.70	65.22	73.90

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 4570 businesses in the assessment area, although revenue information was not reported for 1,513 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 with 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	Unavailable/ Unknown	Total
% of AA Businesses	61.85	3.53	34.62	100
% of Bank Loans in AA #	85.71	14.29	0	100
% of Bank Loans in AA \$	87.33	12.67	0	100

GEOGRAPHIC DISTRIBUTION OF LOANS:

Cherokee County:

The distribution of loans reflects a reasonable penetration throughout the assessment area. There are no low or high income tracts located in the designated assessment area. The distribution of residential mortgage and consumer loans in moderate and middle income tracts generally approximates the census tract characteristics in the assessment area. The tables below reflect the geographic distribution of loans within the assessment area by census tract income level.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0.00%		20.03%		79.97%		0.00%	
	% of Number	% of Amount						
	0.00	0.00	25.00	23.97	75.00	76.03	0.00	0.00

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.00%		20.33%		79.67%		0.00%	
	% of Number	% of Amount						
	0.00	0.00	16.67	30.89	83.33	69.11	0.00	0.00

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses ⁶	0.00%		30.89%		69.11%		0.00%	
	% of Number	% of Amount						
	0.00	0.00	33.33	44.31	66.67	55.69	0.00	0.00

Harrison County:

The distribution of loans reflects a reasonable penetration throughout the assessment area. There are no low income tracts located in the designated assessment area. The distribution of residential mortgage and business loans in moderate, middle, and upper income tracts generally approximates the census tract characteristics in the assessment area. The tables below reflect the geographic distribution of loans within the assessment area by census tract income level.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0.00%		12.36%		45.63%		42.01%	
	% of Number	% of Amount						
	0.00	0.00	17.39	15.96	47.83	47.69	34.78	36.34

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0.00		13.63%		40.40%		45.97%	
	% of Number	% of Amount						
	0.00	0.00	19.05	7.06	28.57	27.35	52.38	65.59

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.