



SMALL BANK

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

PUBLIC DISCLOSURE

September 4, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Kilgore National Bank
Charter Number 24051**

**410 North Kilgore Street
Kilgore, TX 75662**

**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.

Kilgore National Bank 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 when compared to other banks located in the same assessment area.
- 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 an excellent dispersion throughout the assessment area.

SCOPE OF EXAMINATION

This Performance Evaluation is an assessment of the record of Kilgore National Bank in meeting the credit needs of the communities in which it operates. The bank was evaluated under the mall Bank performance criteria. Conclusions regarding the bank's lending performance are based on residential mortgages and business loans originated from September 3, 2002 to September 4, 2007. A review of the Troup Branch lending activities was not performed as it has been opened less than two years. Our conclusions were based on the lending activity of Kilgore National Bank's main office, referred to as the Kilgore assessment area.

DESCRIPTION OF INSTITUTION

Kilgore National Bank is a \$61 million bank with two office locations. The bank's main office is located at 410 North Kilgore Street; Kilgore, Texas. In addition to the main office, the bank opened a full service branch in Troup, Texas in October of 2005 which is located at 101 Railroad Street; Troup, Texas. As of June 30, 2007, loans totaled \$33.9 million and represented 56% of total assets. There are no legal impediments that would inhibit the bank's ability to meet community credit needs. The following chart reflects the distribution of the bank's loan portfolio.

LOAN CATEGORY	\$ (000)	%
Business Loans	20,487	60.27
Residential Real Estate Loans	9,831	28.92
Consumer Loans	3,615	10.62
Agricultural Loans	63	.19
TOTAL	33,996	100.00

DESCRIPTION OF THE KILGORE ASSESSMENT AREA

The Kilgore assessment area consists of 9 census tracts (CTs). Seven are located in Gregg County and 2 are located in Rusk County. These CTs are part of the Longview MSA and are located within 15 miles of the main bank location. The assessment area is comprised of one moderate income tract, seven middle income tracts, and one high income tract. Refer to the bank's public file for a list of the specific CT numbers. The bank's assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude any low or moderate income geographies. The following table provides a description of the bank's assessment area based on 2000 Census and 2006 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF KILGORE ASSESSMENT AREA	
Population	
Number of Families	12,690
Number of Households	17,135
Geographies	
Number of Census Tracts	9
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	11.11%
% Middle-Income Census Tracts	77.78%
% Upper-Income Census Tracts	11.11%
Median Family Income (MFI)	
2000 MFI for AA	\$43,273
2006 HUD-Adjusted MFI	\$48,500
Economic Indicators	
Unemployment Rate	2.93%
2006 Median Housing Value	\$64,641
% of Households Below Poverty Level	13.59%

The bank's assessment area has a total population of 45,685. The distribution of families by income level, regardless of census tract location, consists of the following: 18.31% are low income, 17.20% are moderate income, 22.93% are middle income, and 41.56% are high income families. Major employers in the area include Kilgore ISD, Vertex, Kilgore College, Region VII Service Center, Laird Memorial Hospital, and energy production activities and ancillary businesses. Competition in the area is strong, with numerous local banks, credit unions, and branches of large regional banks operating in the area. The local economy is considered stable, with significant growth in the energy sector of the local economy.

Contact with a local government official indicated that area banks are doing a satisfactory job of meeting community credit needs and did not indicate any under-served geographies or demographic groups. The bank was rated satisfactory at their previous Community Reinvestment Act Examination dated September 3, 2002.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The loan-to-deposit (LTD) ratio of Kilgore National Bank is reasonable given the bank's size and characteristics. The bank's quarterly LTD ratio has averaged 61.60% since the prior CRA examination in September of 2002. The average LTD ratio of banks of similar size in the assessment area was 65.52%. Following is a table detailing the banks used for comparison purposes.

INSTITUTION	ASSETS (AS OF 06/30/07)	AVERAGE LTD RATIO
Arp State Bank	128,231M	32.59%
Citizens Bank – Kilgore	252,777M	56.06%
City National Bank – Kilgore	171,187M	67.95%
First State Bank – Overton	44,209M	34.69%
Gladewater National Bank	24,555M	76.42%
Spring Hill State Bank – Longview	121,989M	94.89%
Texas Bank – Henderson	152,769M	55.64%
White Oak State Bank – White Oak	57,660M	80.85%
<i>Kilgore National Bank</i>	<i>\$60,692M</i>	<i>61.60%</i>

LENDING IN THE ASSESSMENT AREA

A majority of the bank's lending activity is within the assessment area. We reviewed all loans reported under Home Mortgage Disclosure Act (HMDA) requirements, along with a random sample of 20 business loans. A substantial majority of the number of loans originated were made to borrowers within the assessment area. The breakdown by loan category is illustrated in the following table.

Table 1 - Lending in Kilgore Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential Mortgages	101	82.11	22	18.89	100%	3,049	65.39	1614	34.61	100%
Business Loans	12	60.00	8	40.00	100%	449	41.12	644	58.88	100%
Totals	113	79.02	30	20.98	100%	3,498	60.77	2,258	39.23	100%

Source: Data reported under HMDA; Loan Sample.

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. Kilgore National Bank's primary loan products are residential mortgages and business loans. Our sample included a review of all loans reportable under HMDA and a random sample of 20 loans for business purposes.

As illustrated in the chart below, the distribution of residential mortgages generally approximates the demographics for low and moderate income families.

Table 2 - Borrower Distribution of Residential Mortgages								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Residential loans	18.31	17.72	17.20	16.46	22.93	24.05	41.56	32.91

Source: Data reported under HMDA; U.S. Census data.

Additionally, the distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on Dun and Bradstreet data, there are 3,845 businesses in the assessment area, although revenue information was not reported for 1,341. Due to the large number of businesses that did not report revenues, the demographics may not accurately reflect the true number of small businesses within the assessment area. Our sample revealed a substantial majority of the bank's business loans by number were to businesses with revenues less than \$1 million.

Table 2A - Borrower Distribution of Loans to Businesses				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	60.10	5.02	34.88	100%
% of Bank Loans in AA by #	85.00	15.00	NA	100%
% of Bank Loans in AA by \$	24.95	75.05	NA	100%

Source: Loan sample; US Census data.

GEOGRAPHIC DISTRIBUTION OF LOANS

Kilgore National Bank’s geographic distribution of loans reflects an excellent dispersion of loans throughout the assessment area. There are no low income tracts and only one moderate income tract within the Kilgore assessment area. The distribution of residential mortgages and loans to businesses exceeds the demographics listed for the moderate income CT. The following tables detail the geographic distribution of loans within the bank’s assessment area.

Table 3 – Geographic Distribution of Residential Real Estate Mortgages								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
	NA	NA	6.82	15.73	82.00	69.66	11.18	14.61

Source: Data reported under HMDA; U.S. Census data.

Table 3A - Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
	NA	NA	22.44	25.00	63.88	60.00	13.68	15.00

Source: Loan sample; Dun & Bradstreet data.

RESPONSES TO COMPLAINTS

No written complaints have been received by either management or the Supervisory Office regarding the bank’s performance under the Community Reinvestment Act.

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.