



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

July 28, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Emory
Charter Number 6814

170 E. Quitman Street
Emory, TX 75440

Office of the Comptroller of the Currency
Dallas Field Office
500 North Akard, Suite 1600
Dallas, TX 75201-3323

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.

- Lending to borrowers of different income levels meets the standards for satisfactory performance. As a percentage of one-to-four family residential mortgages sampled, 33% were originated to low- and moderate-income borrowers residing within the bank's assessment area (AA). Low- and moderate-income borrowers make up 35% of the assessment area's population.
- Lending to businesses of different sizes exceeds the standards for satisfactory performance. Of the loans included in the sample, 100% were originated to small farms or small businesses. A small farm and small business is defined as a business with revenues of \$1 million or less.
- Lending to borrowers within the AA meets the standards for satisfactory performance. The majority (73%) of loans sampled were originated to borrowers residing within the AA.
- A 57% loan-to-deposit (LTD) ratio averaged over the previous 24 quarters is reasonable and meets the standards for satisfactory performance given the bank's size, financial condition, and the credit needs of the AA.

SCOPE OF EXAMINATION

This was a small bank CRA examination for the time period of August 25, 2002, to June 30, 2008. We reviewed four of the loan products The First National Bank of Emory, N.A. (FNB Emory) offers, including: one-to-four family residential real estate, consumer, commercial, and agriculture loans.

To evaluate FNB Emory on lending to borrowers within its AA, we sampled 20 one-to-four family residential loans, 20 consumer loans, and 20 commercial loans consisting of business and farm (agriculture) loans. As FNB Emory's primary lending focus is one-to-four family residential loan origination, we evaluated the bank's lending to borrowers of different income levels using a 30-loan expanded sample. Finally, we evaluated FNB Emory's lending to businesses of different sizes by using the sample of 20 commercial loans consisting of the business and farm loans noted above.

We also evaluated FNB Emory's average LTD ratio over the previous 24 quarters, comparing it to peer banks within and in close proximity to FNB Emory's AA.

DESCRIPTION OF INSTITUTION

FNB Emory has three locations: the main office and a branch located in Emory, Texas, and a second branch located in Alba, Texas. The main office and the Alba branch are full service locations. FNB Emory purchased the Emory branch, known as the Emory Convenience Center,

from City National Bank, N.A. in 2004. This location does not offer loan origination services; however, the absence of this service is mitigated by the branch's close proximity to the main office. All three locations include ATMs and drive-up facilities. The main office drive-up provides extended weekday and Saturday hours. In addition, the Alba branch drive-up provides extended Friday hours. FNB Emory is a subsidiary of Emory Bancshares, Inc., a one-bank holding company.

FNB Emory's main competition consists of large and small national and state banks. The majority of the larger financial institutions operate just outside the bank's AA. Based on the FDIC's annual Market Share Report as of June 30, 2007, there are 11 FDIC-insured institutions with 25 offices located within Rains and Wood Counties. There are other insured institutions with branch locations operating in surrounding counties of Hopkins, Hunt, and Van Zandt.

As of June 30, 2008, FNB Emory had \$88 million in total assets with net loans to total assets totaling 44%. Based on conversations with bank management, FNB Emory's primary business focus is one-to-four family residential real estate lending, which composes 36% of its loan portfolio mix. The following table portrays FNB Emory's principal loan portfolio mix:

TYPES OF DOMESTIC LOANS OUTSTANDING		
JUNE 30, 2008		
<i>(\$000's)</i>		
<i>TYPE OF LOANS</i>	<i>AMOUNT</i>	<i>PERCENTAGE</i>
1-4 Family Residential Loans	\$14,389	36%
Agriculture Loans (including real estate)	\$ 8,836	22%
Commercial Loans	\$ 6,714	17%
Commercial Real Estate Loans	\$ 5,417	14%
Consumer Loans (not secured by real estate)	\$ 4,147	10%
Other Loan Types (excluding consumer loans)	\$ 54	<1%
TOTAL	\$ 39,557	100%

Source: The June 30, 2008, Federal Financial Institutions Examination Council's (FFIEC) Consolidated Reports of Condition and Income (Call Report).

From August 25, 2002, to June 30, 2008, FNB Emory made 11,182 loans totaling approximately \$207.5 million. The following table provides the total dollar amount and percentage of loans made per dollar size:

LOANS MADE DURING THE EVALUATION PERIOD			
AUGUST 25, 2002 – JUNE 30, 2008			
<i>DOLLAR SIZE</i>	<i>NUMBER</i>	<i>PERCENTAGE</i>	<i>AMOUNT (000'S)</i>
\$10,000 and Above	3,952	35%	\$ 182,358
\$5,000 to \$9,999	2,105	19%	\$ 14,636
\$1,000 to \$4,999	3,834	34%	\$ 9,924
\$500 to \$999	631	6%	\$ 438
Less than \$500	660	6%	\$ 164
TOTAL	11,182	100%	\$ 207,520

Source: FNB Emory provided figures

The most recent CRA examination was performed as of August 24, 2002. FNB Emory received an Outstanding rating at that examination. There are no financial or legal obstacles affecting its ability to meet the community’s credit needs.

DESCRIPTION OF ASSESSMENT AREA

FNB Emory’s AA includes three census tracts: 9501 and 9502 in Rains County and 9504 in Wood County. The two census tracts in Rains County make up the entirety of county, which is home to the cities of Point and Emory. The third census tract in Wood County incorporates the city of Alba and is the only portion of Wood County included in the AA.

The AA does not fall within a metropolitan statistical area (MSA). The AA is composed of three middle-income tracts and meets regulatory guidelines as it does not arbitrarily exclude any low- or moderate-income areas. The following table reflects the demographic and economic characteristics of the AA:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS* OF ASSESSMENT AREA	
<i>POPULATION – YEAR 2008</i>	
Number of Families	3,783
Number of Households	5,068
<i>GEOGRAPHIES</i>	
Number of Census Tracts (CTs)	3
# / % Low-Income CTs	0 / 0.0%
# / % Moderate-Income CTs	0 / 0.0%
# / % Middle-Income CTs	3 / 100%
# / % Upper-Income CTs	0 / 0.0%
<i>MEDIAN FAMILY INCOME (MFI)</i>	
1990 MFI for AA	\$24,585
2000 HUD-Adjusted MFI	\$34,700
2002 HUD-Adjusted MFI	\$36,100
2006 HUD-Adjusted MFI	\$43,100
2007 HUD-Adjusted MFI	\$41,800
2008 HUD-Adjusted MFI	\$41,800
<i>ECONOMIC INDICATORS</i>	
Unemployment Rate	2.83%
2008 Median Housing Value	\$61,626
% of Households Below Poverty Level	14%

Eighty-one percent of the housing units in the AA are occupied, with 67% owner-occupied and 13% rental-occupied. Nineteen percent of the housing units in the AA are vacant. Bank management stated there is a significant portion of the community that is retired and/or that lives on a fixed income. Based on the 2000 U.S. Census, 36% of the households in the AA receive Social Security payments, 21% receive retirement payments, and 3.5% receive public assistance.

The largest industries in the AA are tourism and real estate development. Due to the close proximity to Lake Fork and Lake Tawakoni, fishing and boating activities impact Rains County. Lake Fork is popular for bass fishing and is responsible for a large portion of the tourism in Rains County. The largest employers in the bank's market area include: Rains Independent School District, Rains County, and Ivan Smith Furniture.

We determined the credit needs of the community through discussions with management and local community contacts. Management stated the community credit needs included: one-to-four family residential real estate loans, commercial real estate loans, and consumer loans. We contacted two members of the local community during this evaluation period, including a representative of a local charity and a representative speaking for a local economic development organization. One of

the community contacts identified the community’s credit needs as one-to-four family residential loans and consumer installment loans. The other contact identified a mix of one-to-four family residential, consumer installment, and commercial loans as the community’s credit needs.

Both community contacts indicated FNB Emory is active in the community. Specifically, they both commented FNB Emory is often a sponsor at local community events including: the annual Founder’s Day Festival, the annual County Fair, and a youth anti-drug program known as “Hooked on Fishing”.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNB Emory’s LTD ratio is reasonable and meets the standards for satisfactory performance given the bank’s size, financial condition, and the credit needs of the AA. The bank’s 24-quarter average LTD ratio of 57% is comparable to financial institutions of similar asset size within and in close proximity to FNB Emory’s AA.

We compared FNB Emory’s quarterly average LTD ratio to its peer group and other financial institutions that are categorized in a similar peer group. FNB Emory’s peer group consists of financial institutions with average assets between \$50 million and \$100 million with three or more banking offices located in a non-MSA. The other peer group represented financial institutions with two or less banking offices and are located near FNB Emory.

The institutions’ size and average LTD ratio are detailed in the following table:

Financial Institution	Total Assets As of 03/31/08 (000’s)	Average LTD Ratio
<i>First National Bank of Emory</i>	\$ 89,830	57%
Wood County National Bank	\$ 67,186	54%
First National Bank of Canton	\$ 92,862	54%
Citizens National Bank of Wills Point	\$ 83,041	66%
First State Bank of Ben Wheeler, TX	\$ 82,630	55%

Source: The Federal Financial Institutions Examination Council’s (FFIEC) Consolidated Reports of Condition and Income (Call Report). Data gathered from September 30, 2002, to June 30, 2008

Lending in Assessment Area

FNB Emory's lending to borrowers within its AA meets the standards for satisfactory performance. The majority of loans originated during the evaluation period were inside FNB Emory's AA.

We reviewed a sample of 20 one-to-four family residential loans, 20 consumer loans, and 20 commercial loans originated from August 25, 2002, to June 30, 2008. Of the loans reviewed, 73% were made within FNB Emory's AA, totaling \$1,672 thousand or 79% of the total dollars.

The table below organizes the results of FNB Emory's lending in its AA:

LENDING IN THE ASSESSMENT AREA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (000)	%	\$ (000)	%	
Residential RE	16	80	4	20	20	1,075	86	179	14	\$1,254
Consumer	14	70	6	30	20	166	64	95	36	\$ 261
Commercial	14	70	6	30	20	431	71	173	29	\$ 604
Totals	44	73	16	27	60	1,672	79	447	21	\$2,119

Source: Loan sample data.

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

FNB Emory's lending to borrowers of different incomes meets the standards for satisfactory performance. Lending to businesses of different sizes exceeds the standards for satisfactory performance.

Borrowers of Different Incomes

FNB Emory's one-to-four family residential lending to borrowers of different income levels meets the standards for satisfactory performance. Of the loans sampled in the bank's AA, a total of 33% were originated to borrowers that are considered low- and moderate-income. This is considered satisfactory since 35% of the assessment area's total population is composed of low- and moderate-income families.

The bank's primary lending focus is one-to-four family residential real estate loans. As of June 30, 2008, one-to-four family residential loans comprise 36% of the bank's outstanding loans. Therefore, one-to-four family residential loans were sampled to determine the distribution of loans in the bank's AA by borrower income. We added 10 additional loans to the residential loans used to compare FNB Emory's lending within its AA for this analysis.

Low-Income Borrowers

FNB Emory's lending to low-income borrowers within its AA meets the standards for satisfactory

performance. FNB Emory made a reasonable loan penetration of 13% of the loans we sampled to borrowers that are considered low-income. This performance is considered satisfactory given 18% of the assessment area’s population is composed of low-income families.

Management indicated there is a significant portion of the community that is retired and/or that lives on a fixed income. Many potential borrowers in this category already own a home and therefore are not seeking residential loans. The 2000 U.S. Census data previously mentioned in this evaluation attests to these indications: 36% of the households in the AA receive Social Security payments, 21% receive retirement payments, and 3.5% receive public assistance.

Moderate-Income Borrowers

FNB Emory’s lending to moderate-income borrowers within its AA meets the standards for satisfactory performance. FNB Emory made 20% of the loans we sampled to moderate-income borrowers residing within its AA. This performance is considered good given 17% of the assessment area’s population is composed of moderate-income families.

The table below organizes the results of FNB Emory’s lending to borrowers of different incomes:

BORROWER DISTRIBUTION OF RESIDENTIAL REAL ESTATE LOANS IN AA								
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
1-4 Family RE	18%	13%	17%	20%	20%	10%	45%	57%

Source: 2000 U.S. Census data and loan sample data.

Local community contacts verified FNB Emory’s lending to low- and moderate-income borrowers. One community contact stated they were aware of FNB Emory originating loans of low dollar amounts to borrowers in the community, including \$100 loans. A second contact indicated they were aware of FNB Emory making loans to borrowers of very low income. For a better understanding of the dollar sizes and the amount of loans FNB Emory originated during the evaluation period, refer to the table on page three entitled, “Loans Made during the Evaluation Period”.

Businesses of Different Sizes

FNB Emory’s lending to businesses of different sizes exceeds the standards for satisfactory performance. Of the loans sampled, 100% of loans were to small businesses and farms within the AA. Small businesses and farms are defined as businesses within the AA with revenues of \$1 million or less.

We used the same sample of 20 commercial loans used to determine the bank’s lending within the AA to determine its lending to businesses of different sizes. The commercial loan sample included commercial and agriculture (farm) loans, both real estate secured and unsecured.

Of the 20 loans sampled, 14 loans were within FNB Emory’s AA. Of these 14 loans, 100% were to business and farms with revenues less than or equal to \$1 million. The dollar volume of these loans was approximately \$431 thousand.

The table below organizes the results of FNB Emory’s lending to businesses of different sizes:

BORROWER DISTRIBUTION OF LOANS TO BUSINESSES/FARMS IN AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	92%	7%	<1%	100%
% of Bank Loans in AA by #	100%	0%	0%	100%
% of Bank Loans in AA by \$	100%	0%	0%	100%

Source: 2000 U.S. Census and loan sample data.

Geographic Distribution of Loans

A meaningful analysis for the geographic distribution of loans in the bank’s AA could not be performed. There are no designated low- or moderate-income census tracts within FNB Emory’s AA.

Responses to Complaints

We reviewed FNB Emory’s public file as well as verified with the OCC’s Customer Assistance Group (CAG) to identify any complaints FNB Emory received, if any, and the bank’s response to any complaints during the evaluation period. FNB Emory did not receive any complaints related to its CRA performance during this evaluation period.

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.