



SMALL BANK

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

PUBLIC DISCLOSURE

July 21, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Kemp
Charter Number 5932**

**103 S. Main
Kemp, TX 75143**

**Comptroller of the Currency
Dallas South
500 North Akard Street Suite 1600
Dallas, TX 75201**

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.

The First National Bank of Kemp's (FNBK) lending performance is satisfactory given its size, financial condition, and known credit needs of its assessment area. The primary factors supporting the bank's overall rating include:

- First National Bank of Kemp's loan-to-deposit ratio is reasonable given the bank's size, assessment area needs, and the competitive banking market within the designated assessment area. The quarterly average loan-to-deposit ratio of 50.92% is in line with competitor banks and meets the standards for satisfactory performance.
- A substantial majority of FNBK's loan originations are within the bank's assessment area;
- The distribution of loans to individuals of varying incomes reflects a reasonable penetration;
- The geographic distribution of commercial loans and residential real estate loans exceeds the standards for satisfactory performance; and
- Consumers have filed no consumer complaints regarding FNBK's CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

FNBK is headquartered in the city of Kemp, Kaufman County, Texas approximately 50 miles southeast of Dallas, Texas. As of March 31, 2004, the bank's total assets were \$50.2 million. FNBK has four banking offices including the main office. The branches are located in Seven Points and Trinidad, and there is a mini-bank located in Kemp. All locations offer drive-thru services, and ATM services are provided at the Seven Points location and at the mini-bank in Kemp. Hours of operation are commensurate with other area banks.

Kemp is a community of approximately 1,200. Seven Points is a community of approximately 2,500 located 10 miles south of Kemp. Trinidad is a community of 1,000 located approximately 20 miles south of Seven Points. All three areas are in close proximity of Cedar Creek Reservoir, a large recreational lake. In recent years, the local economy has been primarily influenced by blue collar workers that commute to Dallas, Texas or surrounding areas.

FNBK has no impediments, legal or otherwise, which hinders the bank's ability to help meet the credit needs of its assessment area. FNBK serves the southeastern portion of Kaufman County and the northwestern portion of Henderson County, which are in the Dallas metropolitan statistical area (MSA) and the southwestern portion of Van Zandt county, which is not in an MSA. FNBK's competition consists of branches of Cedar Creek Bank and American National Bank (Terrell). The bank offers a full range of loan products and deposit services, with an emphasis on small business and residential real estate loans. As reflected in the table below, loans as of March 31, 2004 are distributed as follows:

Loan Category	\$ (000)	%
Real Estate Loans (1 – 4 Family)	6,005	34.32
Commercial (including RE)	6,001	34.30
Consumer Loans	3,183	18.19
Other Loans	1,368	7.82
Agricultural Loans	940	5.37
Total	17,497	100.00

FIRST NATIONAL BANK OF KEMP'S ASSESSMENT AREA

The assessment area for FNBK consists of southern portion of Kaufman County, the northwestern portion of Henderson County, and the southwestern portion of Van Zandt county.

The assessment area complies with the legal requirements of CRA and contains a total of sixteen Census Tracts (CTs) and one block-numbering area (BNAs). Twelve of the CTs are classified as moderate-income and four are middle-income. The BNA is classified as middle-income. There were no low-income CTs in the assessment area. The assessment area did not arbitrarily exclude any low-to-moderate income geographies. Derived from the 1990 Census Bureau and 2002 Housing and Urban Development Agency (HUD) data, the table below reflects the assessment area demographics as follows:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	19,084
Number of Households	24,727
Geographies	
Number of Census Tracts/BNA	17
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	71
% Middle-Income Census Tracts/BNA	29
% Upper-Income Census Tracts/BNA	0
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	37,921
2002 HUD-Adjusted MFI	64,712
Economic Indicators	
Unemployment Rate	4%
1990 Median Housing Value	54,471
% of Households Below Poverty Level	18
% of Households on Social Security	35
% of Households at Retirement	18

The assessment area has a diversified employment base. The Kemp Care Center (nursing home facility) is one of the largest employers in the city of Kemp. Major area retail employers include Wal-Mart, Lowe's, and Bealls Department Store. Independent school districts in Kemp, Kaufman, and Mabank are also among the area's major employers as are local area hospitals. Primary credit needs include affordable housing, consumer, and small business/small farm. The community contact interviewed for this assessment stated that FNBK has always been responsive to all community needs and a willing participant in seeking economic development for the assessment area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

FNBK has a satisfactory lending performance. The bank continues to make residential real estate and small business loans throughout the assessment area. Geographic distribution of loans is reasonable, as is lending to borrowers of different income levels.

Loan-to-Deposit Ratio

FNBK's loan-to-deposit (LTD) ratio is reasonable and commensurate with its size, competition, available resources, lending activities, as well as the demographics of the assessment area. The

bank's average LTD was calculated since the last CRA examination in March 1999. The average loan-to-deposit ratio for the last five years is 50.92%. This compares reasonably to the 56% average loan-to-deposit ratio for its competitors within the assessment area.

Institution	Assets (as of 3/31/04) 000's	Average LTD Ratio
Cedar Creek Bank	105,529	56.12%
American National Bank Terrell	1,045,757	56.71%
<i>First National Bank Kemp</i>	<i>50,181</i>	<i>50.92%</i>

Lending in Assessment Area

FNBK's lending in its assessment area exceeds the standard for satisfactory performance. The bank has made a substantial majority of its loan within its assessment area, based on a review of HMDA reportable data and a sample of FNBK's commercial loans. For all loans combined, 94% of the number of loans and 90% of the loan dollars were made in the assessment area.

TOTAL LOANS REVIEWED (4/1/99-3/31/04)								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial	19	95.00	583	97.43	1	5.00	15	2.57
Residential RE	375	94.00	7,179	89.30	24	6.00	861	10.70
Total Reviewed	394	94.03	7,762	89.86	25	5.97	876	10.14

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank meets the standards for lending to borrowers of different incomes and to businesses of different sizes.

Borrowers of Different Incomes

FNBK has a satisfactory record of lending to borrowers of different incomes. Our analysis included a review of the bank's HMDA reportable data and indicates lending to borrowers with low- to moderate-income accounts for 70.13% of the number and 35.42% of the dollar volume. See table below for a breakdown.

RESIDENTIAL REAL ESTATE (4/1/99-3/31/04)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	34.7		22.7		20.8		21.9	
LOANS BY PRODUCT	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	22.81	10.97	28.95	17.60	18.42	21.95	29.82	49.47
Home Improvement	50.42	33.21	32.20	32.99	10.59	17.81	6.78	15.99
Refinancing	16.00	6.94	20.00	19.71	44.00	37.67	20.00	35.67
Total	39.73	14.51	30.40	20.91	15.20	23.90	14.67	40.67

Businesses of Different Sizes

FNBK's lending to businesses of different sizes is good. Demographics of the AA reflect a majority of businesses have annual revenues less than \$1.0 million. We reviewed a sample of 20 commercial loans originated by the bank. All of the loans reviewed were made to businesses with revenues of less than \$1.0 million. The following table illustrates the bank's lending penetration to businesses of different sizes.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES (4/1/99-3/31/04)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses ³	96.02	3.98
% of Bank Loans in AA #	100.00	0
% of Bank Loans in AA \$	100.00	0

Geographic Distribution of Loans

FNBK’s lending of residential mortgage products to borrowers of moderate-income geographies exceeds the standards of satisfactory performance. Our analysis included a review of all residential mortgage loans originated during this evaluation period. The table below illustrates the geographic distribution of loans within the assessment area.

Census Tract Income Level	MODERATE		MIDDLE	
% of AA Owner Occupied ⁴	74.3		25.7	
LOANS BY PRODUCT	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	96.49	96.49	3.51	3.51
Home Improvement	97.46	97.88	2.54	2.12
Refinancing	88.00	88.11	12.00	11.89
Totals	96.53	95.29	3.47	4.71

Based on our sample of 20 commercial loans, the bank’s lending to small businesses exceeds the standards for satisfactory performance. The number and dollar volume of commercial loans made to moderate-income census tracts shows a good penetration in comparison to the percentage of businesses within the bank’s assessment area.

Census Tract Income Level	MODERATE		MIDDLE	
% of AA Businesses ⁶	79.65		20.35	
LOANS BY PRODUCT	% of Number	% of Amount	% of Number	% of Amount
Small Business	84.21	81.25	15.79	18.75
Totals				

Responses to Complaints

No complaints concerning the Community Reinvestment Act have been received since the prior examination.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.