



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 4, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Quitman
Charter Number 10646**

**412 East Goode Street
P.O. Box 368
Quitman, TX 75783**

**Office of the Comptroller of the Currency
ADC - 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 First National Bank of Quitman 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 ratios of other area banks.
- ❖ A substantial majority of the bank's loans are extended within its assessment area.
- ❖ Credit activity is reasonably distributed to borrowers of different income levels.

DESCRIPTION OF INSTITUTION

The First National Bank of Quitman is a \$128 million bank located at 412 E. Goode in Quitman, Texas.

The bank is wholly owned by Quitman Bancorporation of Delaware Inc., with this holding company wholly owned by Quitman Bancorporation Inc. The bank also has three branch offices located at 135 N.E. Loop 564, the Wal-Mart SuperCenter, in Mineola, Texas; 415 W. Broad Street in Mineola, Texas; and 2501 S. FM 2869 Suite B in Hawkins, Texas. In March 2002, the bank acquired two Austin Bank, N.A. branches located in Quitman, Texas and Mineola, Texas. After the acquisition, the Austin Bank Quitman branch was closed and consolidated into the main office of First National Bank. In addition, the First National Bank Mineola branch located at 1825 North Pacific was closed and consolidated into the Austin Bank Mineola Branch location. The bank operates automatic teller machines (ATM) located at each location with one stand alone ATM located in Golden, Texas.

As of September 30, 2002, loans totaled \$88 million and represented 69% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio.

Loan Category	\$ (000)	%
Commercial Real Estate Loans	17,219	19.60
Commercial Loans	14,294	16.27
Residential Real Estate Loans	42,797	48.72
Consumer Loans	13,540	15.41
Total	87,850	100.00%

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 during the prior CRA Examination dated June 1, 1998.

DESCRIPTION OF ASSESSMENT AREA

The Board has designated Wood County as its assessment area. This area includes the communities of Quitman, Alba, Winnsboro, Yantis, Hawkins, and Mineola. Wood County consists of eight middle-income block numbering areas (BNA). There are no low or moderate-income tracts within the assessment area. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low and moderate-income geographies.

The following table provides a description of the bank's assessment area based on census data and 2001 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	8,553
Number of Households	11,476
<i>Geographies</i>	
Number of Census Tracts/BNA	8
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
2001 HUD-Adjusted MFI	\$35,800
<i>Economic Indicators</i>	
Unemployment Rate	2.92%
2001 Median Housing Value	\$48,591
% of Households Below Poverty Level	18.32%

The bank's designated assessment area has a total population of 29,380. The distribution of families by income level, regardless of census tract location, consists of the following: 19% are low income; 18% are moderate income; 21% are middle income; and, 42% are upper income. Major employers in Wood County include Wal-Mart Supercenter, East Texas Medical Center, local independent school systems, Trinidad/Brenham Company, Georgia Pacific, Exxon, Ozarka Bottled Water, Brookshires Grocery Stores, USA Harness, Mineola Packing, and Johnston Correctional Unit. Competition throughout the assessment area is considered strong with several banks and branches of other banks located in Wood County. The local economy is considered stable with an unemployment rate of 2.92%.

Contacts with two local realtors indicated the primary community credit need for the assessment area is residential mortgages. The realtors also noted the lack of affordable housing stock in the Mineola and Quitman areas.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio of First National Bank of Quitman is reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 57.59% since the prior CRA examination with the ratio at 78.12% as of September 30, 2002. The average loan-to-deposit ratio of other banks within the assessment area, regardless of size, for the same period, was 52.28%.

Institution	Assets (000s) (as of 6/30/02)	Average LTD Ratio
First National Bank of Quitman	130,000	57.59
Wood County Quitman	66,000	63.39
First National Bank of Mineola	34,000	35.13
Mineola Community Bank	116,000	28.98
First National Bank, Winnsboro	127,000	63.49
First State Bank, Hawkins	34,000	65.11

Lending in Assessment Area

A substantial majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 27 residential loans, 25 consumer loans, and 24 business loans which originated since July 1998. This sample reflected that approximately 87% of the number of loans and 77% of the dollar amount of loans 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	24	88.89	1,393	79.15	3	11.11	367	20.85
Consumer	22	88.00	184	82.03	3	12.00	40	17.97
Business	20	83.33	4,519	76.09	4	16.67	1,420	23.91
Total Reviewed	66	86.84	6,096	76.94	10	13.16	1,827	23.06

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. First National Bank of Quitman’s primary product lines are residential, consumer and business loans. Our sample of loans inside the assessment area included 24 residential loans totaling \$1,393M, 22 consumer loans totaling \$184M, and 20 business loans totaling \$4,519M. The distribution of home purchase, consumer, and business loans generally approximates the income characteristics of the assessment area. Home purchase loans to low and moderate-income families are at a low 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.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	19.15%		18.06%		20.43%		42.36%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	8.33	3.70	16.67	11.80	8.33	10.61	66.67	73.89

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	24.75%		13.99%		17.87%		43.39%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	36.36	15.22	13.64	16.85	31.82	48.37	18.18	19.56

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses ³	94.37	5.63
% of Bank Loans in AA #	90.00	10.00
% of Bank Loans in AA \$	94.15	5.85

Geographic Distribution of Loans

A geographic analysis of lending activity within the bank’s assessment area was not performed. There are no low or moderate-income geographies located in the bank’s assessment areas, and therefore, an analysis would not be meaningful.

Responses to Complaints

Management has not received any written complaints related to CRA performance since the prior CRA examination.

Fair Lending Review

An analysis of 1998-2002 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.