



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 31, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The East Texas National Bank of Palestine
Charter Number 12556

207 West Spring Street
Palestine, TX 75801

Office of the 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.

East Texas National Bank (ETNB) of Palestine has a satisfactory record of meeting community credit needs. This conclusion is based on the following factors:

- The bank's loan-to-deposit ratio is reasonable given the level of competition among financial institutions in the area.
- A substantial majority of loans originated since 2009 were extended to borrowers within the bank's assessment areas.
- The bank's performance in lending to borrowers of different incomes and businesses of different sizes is reasonable.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment areas.

SCOPE OF EXAMINATION

This Performance Evaluation represents a focused review of ETNB's lending activities since January 2009. Our intent is to quantify the bank's ability to meet the credit needs of the communities in which they do business. The bank was evaluated under the small bank performance criteria. As part of our review, we evaluated the bank's primary lending products in each assessment area. These products include consumer loans, residential real estate loans, and commercial loans (including commercial real estate), depending on the assessment area.

DESCRIPTION OF INSTITUTION

East Texas National Bank is a \$136 million bank which is wholly owned by East Texas National, Inc. The bank is located at 207 West Spring Street in Palestine, Texas. In addition to the main office, the bank has two full service branch locations, one each in Huntsville and Mexia. The bank offers traditional products and services typically found in small, community banks. As of April 30, 2011, loans totaled \$64.5 million and represented 48% 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	22,626	35.05
Commercial Loans	20,875	32.34
Consumer Loans	7,911	12.26
Residential Real Estate Loans	13,136	20.35
Total	64,548	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 Community Reinvestment Act (CRA) Examination dated January 29, 2007.

DESCRIPTION OF ASSESSMENT AREA(S)

The Board has designated three, noncontiguous assessment areas for CRA purposes. These assessment areas represent each county in which the bank has a branch and include Anderson County (Palestine), Walker County (Huntsville), and Limestone County (Mexia). The assessment area as a whole meets the requirements of the CRA and does not arbitrarily exclude low and moderate-income geographies. Our review of the bank's compliance with the CRA includes testing for all three assessment areas.

Anderson County

Anderson County is a rural county located approximately 100 miles southeast of Dallas, Texas and serves as the bank's assessment area for the Palestine location. The assessment area has no low-income tracts, one moderate-income tract, eight middle-income tracts, and one upper-income tract. The following table provides a description of the bank's assessment area.

Demographic and Economic Characteristics of Anderson County AA	
<i>Population</i>	
Number of Families	11,404
Number of Households	15,673
<i>Geographies</i>	
Number of Census Tracts	10
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	10%
% Middle-Income Census Tracts	80%
% Upper-Income Census Tracts	10%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2010 HUD-Adjusted MFI	\$46,500
<i>Economic Indicators</i>	
Unemployment Rate	3.08%
2010 Median Housing Value	\$57,223
% of Households Below Poverty Level	16.79%

Source: 2000 Census Data; 2010 Department of HUD information

Anderson County assessment area has a total population of 55,109. The distribution of families by income level, regardless of census tract location, consists of the following; 19.34% are low-income, 16.84% are moderate-income, 22.26% are middle-income, and 41.56% are upper-income. Major employers in Anderson County are the Texas Department of Criminal Justice, Wal-Mart Distribution Centers, Palestine Regional Hospital, Capgemini Energy, and Palestine Independent School District. Competition in Anderson County is strong, with local financial institutions and large national bank's vying for the same deposit and loan customers. The local economy has been impacted by increased unemployment with unemployment rates increasing to 9.7% as of March 31, 2011.

Walker County

Walker County is a rural county located approximately 70 miles north of Houston, Texas and serves as the assessment area for the Huntsville branch. The assessment area has no low-income tracts, one moderate-income tract, four middle-income tracts, and three upper-income tracts. The following table provides a description of the bank's assessment area.

Demographic and Economic Characteristics of Walker County AA	
<i>Population</i>	
Number of Families	11,533
Number of Households	18,311
<i>Geographies</i>	
Number of Census Tracts	8
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	12.50%
% Middle-Income Census Tracts	50.00%
% Upper-Income Census Tracts	37.50%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2010 HUD-Adjusted MFI	\$46,500
<i>Economic Indicators</i>	
Unemployment Rate	4.16%
2010 Median Housing Value	\$68,931
% of Households Below Poverty Level	19.57%

Source: 2000 Census Data; 2010 Department of HUD information

The Walker County assessment area has a total population of 61,758. The distribution of families by income level, regardless of census tract location, consists of the following: 16.80% are low-income, 15.54% are moderate-income, 19.15% are middle-income, and 48.51% are upper-income. Major employers in Walker County are the Texas Department of Criminal Justice, Sam Houston State University, Huntsville Independent School District, Wal-Mart, and the Huntsville Memorial Hospital. Competition in Walker County is strong, with branches of large national institutions and local banks competing for customers. The local economy is considered stable, although unemployment rates have increased to 7.6% as of March 31, 2011. A contact within the community of Huntsville noted a need for more affordable housing in the area.

Limestone County

Limestone County is a rural county located approximately 40 miles east of Waco, TX. Limestone County serves as the assessment area for the bank’s activities in Mexia, TX. There are no low-income tracts, one moderate-income tract, six middle-income tracts, and one upper-income tract in the assessment area. The following table provides a description of the bank's assessment area.

Demographic and Economic Characteristics of the Limestone County AA	
<i>Population</i>	
Number of Families	5,629
Number of Households	7,908
<i>Geographies</i>	
Number of Census Tracts	8
% Low-Income Census Tracts	0
% Moderate-Income Census Tracts	12.50%
% Middle-Income Census Tracts	75.00%
% Upper-Income Census Tracts	12.50%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2010 HUD-Adjusted MFI	\$46,500
<i>Economic Indicators</i>	
Unemployment Rate	2.90%
2010 Median Housing Value	\$46,836
% of Households Below Poverty Level	17.96%

Source: 2000 Census Data; 2010 Department of HUD information

This assessment area has a total population of 22,051. The distribution of families by income level, regardless of census tract location, consists of the following: 21.55% are low-income, 17.62% are moderate-income, 20.04% are middle-income, and 40.79% are upper-income. Major employers in Limestone County are the Mexia State School, Nucor Steel, Wal-Mart, Northwestern Resources, and NRG Power Plant. Competition in Limestone County is moderate, with mostly local institutions competing for customers. While the local economy is considered, unemployment rates have increased to 6.9% as of March 31, 2011.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's lending performance is satisfactory. The loan-to-deposit ratio is reasonable and a substantial majority of loans were originated 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 businesses of different sizes. Lastly, the geographic distribution of loans reflects a reasonable dispersion throughout all assessment areas.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of ETNB is reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly loan-to-deposit ratio has averaged 47.55% since the prior CRA examination in January 2007. The average loan-to-deposit ratio of banks within the assessment area, regardless of size, for the same time period, was 58.86%.

Institution	Assets (000s) (as of 3/31/11)	Average LTD Ratio
East Texas National Bank of Palestine	137,407	47.55%
The Elkhart State Bank	39,509	45.45%
Farmers State Bank	118,032	44.93%
First National Bank of Groesbeck	51,457	70.75%
Incommons Bank	100,110	70.28%
First Financial Bank	176,338	73.19%
First National Bank of Huntsville	395,676	48.57%

Lending in Assessment Area

A substantial majority of the bank's lending occurs within the designated assessment areas. We reviewed a sample of 60 commercial loans, 20 residential real estate loans, and 40 consumer loans originated since January of 2009. Commercial lending was found to be a primary product type in all three assessment areas. Consumer lending was a focal point in both Walker and Limestone Counties. Residential lending was a focal point of the Anderson County assessment area. The breakdown by loan category is illustrated in the following table. As you can see, ninety-five percent of the loans we tested were within the bank's assessment area when reviewing the information by number. By dollar, over ninety-eight percent of loans were within the bank's assessment areas.

Lending in Anderson County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (000s)	%	\$ (000s)	%	
Commercial	55	91.67	5	8.33	60	4,444	97.89	96	2.11	4,540
Residential RE	20	100.0	0	0.00	20	1,601	100.0	0	0.00	1,601
Consumer	39	97.50	1	2.50	40	481	96.01	20	3.99	501
Totals	114	95.00	6	5.00	120	6,526	98.25	116	1.75	6,642

Source: Loan sample.

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

Anderson County

The distribution of loans within the Anderson County assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. The distribution of home purchase loans generally approximates the income characteristics of the assessment area. A total of ten percent of the bank's home purchase loans were made to low-income borrowers, while twenty percent were extended to moderate-income borrowers. This compares favorably to the demographic data, which details a level of nineteen percent for low-income families and seventeen percent for moderate-income families. Refer to the chart below.

Borrower Distribution of Residential Real Estate Loans in Anderson County 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
Home Purchase	19.34	10.00	16.84	20.00	22.26	10.00	41.56	60.00

Source: Loan sample; US Census Data

The distribution of business loans reflects an excellent penetration among businesses of different sizes. Based on U.S. Census information, there are 2,870 businesses in the assessment area, of which revenue information was available for all but 556 of the businesses. Our analysis was performed based on businesses with reported income. 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 Loans to Businesses in Anderson County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.37%	3.58%	20.05%	100%
% of Bank Loans in AA by #	75.00	25.00	0	100%
% of Bank Loans in AA by \$	84.55	15.45	0	100%

Source: Loan sample; Dun and Bradstreet Data

Walker County

The distribution of loans within the Walker County 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. While the distribution of loans to low-income borrowers is less than the demographics of the AA, loans to moderate-income borrowers exceed the AA’s demographics.

Borrower Distribution of Consumer Loans in Walker County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	24.50	10.00	15.08	20.00	16.81	35.00	43.61	35.00

Source: Loan sample; U.S. Census data.

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 3,368 businesses in the assessment area, of which revenue information was available for all but 672 of the businesses. Our analysis was performed based on businesses with reported income. Our sample of commercial loans inside the assessment area revealed a substantial majority of the number of loans were to businesses with revenues less than one million. A majority of loans was made to businesses with revenues less than one million by the dollar amount as well.

Borrower Distribution of Loans to Businesses in Walker County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.80%	2.70%	20.49%	100%
% of Bank Loans in AA by #	85.00%	15.00%	0.00%	100%
% of Bank Loans in AA by \$	58.71%	41.29%	0.00%	100%

Source: Loan sample; Dun and Bradstreet data.

Limestone County

The distribution of loans within the Limestone County assessment area reflects an excellent penetration among borrowers of different income levels and businesses of different sizes. The distribution of consumer loans to low- and moderate-income borrowers exceeds the income characteristics of the assessment area. Refer to the chart below

Borrower Distribution of Consumer Loans in Limestone County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	25.40	25.00	17.19	30.00	16.94	5.00	40.47	40.00

Source: Loan sample; U.S. Census data.

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 1,725 businesses in the assessment area, of which revenue information was available for all but 335 of the businesses. Our analysis was performed based on businesses with reported income. Testing of commercial loans that originated inside the assessment area revealed a substantial majority of the number of loans were to businesses with revenues less than one million. By dollar, this distribution of lending is less impressive, but still reasonable based on the demographic data.

Borrower Distribution of Loans to Businesses in Limestone County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.92%	2.52%	20.55%	100%
% of Bank Loans in AA by #	75.00	25.00	0.00	100%
% of Bank Loans in AA by \$	45.17	54.83	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Geographic Distribution of Loans

Anderson County

The geographic distribution of loans within the Anderson County assessment area represents a reasonable dispersion for both primary loan types. Residential loans originated in moderate-income tracts exceed the demographics for the AA, while loans extended to small businesses approximates the demographics for the moderate-income tracts. Refer to the charts below.

Geographic Distribution of Residential Real Estate Loans in Anderson County								
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
Home Purchase	0.00	0.00	4.11	5.00	95.55	95.00	0.35	0.00

Source: Loan sample; U.S. Census data.

Geographic Distribution of Loans to Businesses in Anderson County								
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
Businesses	0.00	0.00	13.28	5.00	86.32	95.00	0.40	0.00

Source: Loan sample; Dun and Bradstreet data.

Walker Country

The geographic distribution of loans within the Walker County assessment area represents a reasonable dispersion for both primary loan types. Consumer loans extended to borrowers within the moderate income tracts approximate the demographics for the AA, while loans extended to small businesses within the moderate income tracts exceed the demographics for the AA. Refer to the following charts.

Geographic Distribution of Consumer Loans in Walker County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	5.62	5.00	46.87	15.00	47.52	80.00

Source: Loan sample; U.S. Census data.

Geographic Distribution of Loans to Businesses in Walker County								
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
Businesses	0.00	0.00	7.22	10.00	48.05	35.00	44.73	55.00

Source: Loan sample; Dun and Bradstreet data.

Limestone County

The geographic distribution of loans in the Limestone County assessment area represents a reasonable dispersion for both primary loan types. Consumer loans originated within the moderate-income tracts exceeds the demographics for the AA, while loans to small businesses approximate the demographics for the AA. Refer to the following charts.

Geographic Distribution of Consumer Loans in Limestone County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	0.00	0.00	7.35	10.00	84.31	90.00	8.35	0.00

Source: Loan sample; U.S. Census data.

Geographic Distribution of Loans to Businesses in Limestone County								
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
Businesses	0.00	0.00	6.40	5.00	88.49	95.00	5.11	0.00

Source: Loan sample; Dun and Bradstreet data.

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.