



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 14, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Hughes Springs
Charter Number: 6922**

**505 East First Street
Hughes Springs, TX 75656**

**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 CRA RATING: The institution is rated satisfactory.

First National Bank of Hughes Springs 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 based on the bank's performance context and lending opportunities within its assessment area.
- A majority of the bank's loans are extended within the bank's assessment area.
- Credit activity reflects excellent penetration to borrowers of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

SCOPE OF EXAMINATION

This Performance Evaluation is an assessment of the record of First National Bank of Hughes Springs in meeting the credit needs of the communities in which it operates. The bank was evaluated under the Small Bank performance criteria. First National Bank's primary loan products are consumer and commercial loans. Conclusions regarding the bank's lending performance are based on consumer and commercial loans that were originated from October 28, 2003 through January 14, 2008.

DESCRIPTION OF INSTITUTION

First National Bank of Hughes Springs is a \$162 million bank. The bank is a Sub-Chapter S Corporation owned by a one-bank holding company (Chalybeate Springs Corp). The bank's main office is located at 505 East First Street, Hughes Springs, Texas. Full service branches are located in Liberty City, Omaha, Atlanta, Daingerfield, Jefferson, and Harleton, Texas, along with a drive-through location in Queen City. As of September 30, 2007, loans totaled \$78 million and represented 48% of total assets. The following chart reflects the distribution of the bank's loan portfolio as of September 30, 2007.

LOAN CATEGOERY	\$ (000)	%
Commercial Loans	\$22,211	28.39%
Real Estate Loans	\$44,733	57.17%
Consumer Loans	\$9,283	11.86%
Agricultural Loans	\$2,020	2.58%
Total	\$78,247	100.0%

There are no legal impediments or other factors that inhibit the bank's ability to meet the credit needs of the community. The bank was rated Satisfactory during the prior CRA Examination dated October 27, 2003.

DESCRIPTION OF ASSESSMENT AREAS

The Board has designated two assessment areas for CRA purposes. The assessment areas include the locations in which the bank has offices along with adjacent counties. The Counties of Cass, Marion, Morris, and census tract 202 in Harrison County has been designated as one assessment area. The second assessment area includes census tracts 102, 104, and 107 in Gregg County. These assessment areas meet the requirements of the Community Reinvestment Act and do not arbitrarily exclude low and moderate-income geographies.

Cass, Marion, Morris, and Census Tract 202 Harrison County

The adjacent counties of Cass, Marion, Morris, and Harrison County serve as the banks assessment area for all of the bank's branches with the exception of Liberty City. The assessment area is made up of 15 census tracts with all but one designated as middle-income. The lone moderate-income tract is located about 10 miles west of the city of Jefferson. The following table provides a description of the bank's assessment area based on 2000 census data, and 2006 data from the Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF CASS, MARION, MORRIS, AND HARRISON COUNTIES	
<i>Population</i>	
Number of Families	17,361
Number of Households	24,302
<i>Geographies</i>	
Number of Census Tracts	15
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	6.67%
% Middle-Income Census Tracts	93.33%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$34,981
2006 HUD-Adjusted MFI	\$43,100
<i>Economic Indicators</i>	
Unemployment Rate	2.68%
2000 Median Housing Value	\$47,251
% of Households Below Poverty Level	18.88%

The total population of the assessment area is 60,648. Competition in the financial services sector is moderate, with numerous banks and other financial institutions located throughout the bank's trade areas. Major employers in the area include Lone Star Steel, International Paper Company, and Daingerfield/Lone Star ISD. The local economy is considered stable with an unemployment rate of 2.68%.

Contact with the City Manager of Hughes Springs revealed that the primary credit needs in the community are residential mortgages and small business loans.

Gregg County Census Tracts 102, 104, and 107

Census tracts 102, 104, and 107 are located in the western portion of Gregg County, which is part of the Longview Metropolitan Statistical Area. These tracts include the communities of Gladewater, Liberty City, and portions of Kilgore. The Liberty City branch has total assets of \$8.38 million which represents 5.16% of the bank's total assets. There are no low-income census tracts, one moderate-income census tract, two middle-income census tracts, and no upper-income census tracts. The following table provides a description of the assessment area based on 2000 census data, and 2006 data from the Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF CENSUS TRACTS 102, 104, AND 107 IN GREGG COUNTY	
<i>Population</i>	
Number of Families	5,063
Number of Households	7,010
<i>Geographies</i>	
Number of Census Tracts	3
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	33.33%
% Middle-Income Census Tracts	66.67%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$37,803
2006 HUD-Adjusted MFI	\$48,500
<i>Economic Indicators</i>	
Unemployment Rate	3.84%
2000 Median Housing Value	\$53,841
% of Households Below Poverty Level	16.96%

The total population of this assessment area according to the 2000 census was 19,377. Financial services competition in this area is also moderate, with several banks, credit unions, and financial service vendors located throughout these communities. Major employers in this area include Texas Die Casting, Sabine Independent School District, and various small retail service providers.

Contact with a representative from the Gladewater Chamber of commerce stated that the primary credit needs of the area are consumer loans and residential mortgage loans. She also stated that banks in the area are doing a good job of meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

- The bank’s overall lending performance is satisfactory. The bank’s loan to deposit ratio is reasonable and a majority of loans are within the bank’s assessment area. Credit activity reflects excellent penetration to borrowers of different income levels and businesses of different sizes. Additionally, the geographic distribution of loans meets the standards for dispersion throughout the assessment area.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of First National Bank of Hughes Springs is reasonable given the bank's size, financial condition and assessment area credit needs. The loan-to-deposit ratio is comparable to other banks headquartered in the bank's assessment area. The quarterly average loan-to-deposit ratio for the bank is 59.62% since the prior CRA examination in October 2003. The average loan-to-deposit ratio of banks within the assessment area for the same time period is 69.52% with a high of 89.88% and a low of 45.15%.

INSTITUTION	Assets (000s) (as of 9/30/07)	Average LTD Ratio
First National Bank Hughes Springs	\$162,308	59.62%
First State Bank, Avinger	\$15,240	82.45%
Bloomburg State Bank, Bloomburg	\$13,241	69.13%
First National Bank, Linden	\$65,269	49.55%
Lone Star State Bank, Lone Star	\$27,667	89.88%
Morris County National Bank, Naples	\$81,643	73.84%
National Bank of Daingerfield	\$87,820	81.42%
First State Bank Hallsville	\$31,665	45.15%
Gladewater National Bank	\$25,280	74.63%

Lending in Assessment Area

A majority of the bank's lending is located within the assessment area. Primary lending products consist of commercial and consumer loans. Our sample included these loan types that originated since January 2006. The sample reflected that 75% of the number of loans and 73% of the dollar amount of loans were extended within the bank's assessment area. The following table further illustrates the breakdown by loan category.

Lending Within the Assessment Areas										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	30	75.00%	10	25.00%	40	\$155	63.00%	\$91	37.00%	\$246
Commercial Loans	30	75.00%	10	25.00%	40	\$1,439	74.68%	\$488	25.32%	\$1,927
Totals	60	75.00%	20	25.00%	80	\$1,594	73.35%	\$579	26.65%	\$2,173

Source: Loan sample.

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

Cass, Marion, Morris, and Census Tract 202 Harrison County

The distribution of loans within the assessment area reflects excellent penetration among borrowers of different income levels and businesses of different sizes. The distribution of consumer loans to low-income borrowers is generally consistent with the percentage of low-income households within the assessment area, while the distribution of consumer loans to moderate-income borrowers significantly exceeds the percentage of moderate-income households.

Borrower Distribution of Consumer Loans in Cass, Marion, Morris, and Census Tract 202 of Harrison County									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% 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	% of Number of Loans
% of Total	28.57%	30.00%	15.90%	33.33%	17.30%	26.67%	38.23%	10.00%	0.00%

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

The distribution of business loans reflects a reasonable distribution among businesses of different sizes. Based on data obtained from Dun & Bradstreet, the assessment area contains 4,465 non-farm businesses. However, it should be noted 48.09% of the businesses in the assessment area do not report their revenues. As a result, the percentage of businesses by income level may not accurately reflect a true percentage of the businesses in each income category. Our sample of commercial loans inside the assessment area revealed a majority of the bank's commercial loans were to businesses with revenues less than one million.

Borrower Distribution to Businesses in Cass, Marion, Morris, and Census Tract 202 of Harrison County				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	49.05%	2.87%	48.08%	100.00%
% of Bank Loans in AA by #	85.00%	15.00%	0.00%	100.00%
% of Bank Loans in AA by \$	70.40%	29.60%	0.00%	100.00%

Source: Loan sample; Dun and Bradstreet data.

Gregg County Census Tracts 102, 104, and 107

The distribution of loans within the assessment area reflects excellent penetration among borrowers of different income levels and businesses of different sizes. The distribution of consumer loans to low-income borrowers significantly exceeds the percentage of low-income households within the assessment area, while the distribution of consumer loans to moderate-income borrowers is generally consistent with the percentage of moderate-income households.

Borrower Distribution of Consumer Loans Gregg County Census Tracts 102, 104, and 107									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% 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	
% of Total	26.58%	45.00%	15.91%	15.00%	19.93%	25.00%	37.58%	15.00%	0.00%

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

The distribution of business loans reflects a reasonable distribution among businesses of different sizes. Based on data obtained from Dun & Bradstreet, the assessment area contains 2,070 non-farm businesses. However, it should be noted 33.96% of the businesses in the assessment area do not report their revenues. As a result, the percentage of businesses by income level may not accurately reflect a true percentage of the businesses in each income category. Our sample of commercial loans inside the assessment area revealed a majority of the bank's commercial loans were to businesses with revenues less than one million. Approximately

90% by number and 51% by dollar were to businesses with revenues of less than one million dollars.

Borrower Distribution to Businesses in Gregg County Census Tracts 102, 104, and 107				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	60.53%	5.51%	33.96%	100.00%
% of Bank Loans in AA by #	90.00%	10.00%	0.00%	100.00%
% of Bank Loans in AA by \$	50.80%	49.20%	0.00%	100.00%

Source: Loan sample; Dun and Bradstreet data.

Geographic Distribution of Loans

Cass, Marion, Morris, and Census Tract 202 Harrison County

First National Bank of Hughes Springs has a reasonable dispersion of loans within its assessment area. The bank's larger assessment area has no low-income tracts, one moderate-income tract, fourteen middle-income tracts, and no upper-income tracts. The distribution of consumer loans is generally consistent with the characteristics of the moderate census tract. Less than 2% of businesses are located within the moderate income tract. As a result, an analysis of the distribution of commercial loans would not be meaningful.

Geographic Distribution of Consumer Loans in Cass, Marion, Morris, and Census Tract 202 Harrison 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
% of Total	0.00%	0.00%	5.72%	5.00%	94.28%	95.00%	0.00%	0.00%

Source: Loan sample; U.S. Census data

Gregg County Census Tracts 102, 104, and 107

First National Bank of Hughes Springs has a reasonable dispersion of loans within this assessment area. The bank's Liberty City assessment area has no low income tracts, one moderate income tract, two middle income tracts, and no upper income tract. The distribution of

consumer loans exceeds the characteristics of the moderate census tract. The distribution of business loans is generally consistent with the characteristics for the moderate census tract.

Geographic Distribution of Consumer Loans in Gregg County Census Tracts 102, 104, and 107								
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
% of Total	0.00%	0.00%	22.52%	57.14%	77.48%	42.86%	0.00%	0.00%

Geographic Distribution of Commercial Loans in Gregg County Census Tracts 102, 104, and 107								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
% of Total	0.00%	0.00%	41.69%	40.00%	58.31%	60.00%	0.00%	0.00%

Responses to Complaints

First National Bank of Hughes Springs has not received any written CRA related complaints during the assessment 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.