



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**February 23, 2009**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Texas Heritage National Bank  
Charter Number 4701

107 Webb  
Daingerfield, TX 75638

Office of the Comptroller of the Currency

Longview Field Office  
1800 West Loop 281 Suite 306  
Longview, TX 75604-2516

**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.**

Texas Heritage National Bank has a satisfactory record of meeting community credit needs. This rating is based on the following:

- A substantial majority of the bank's loans are extended within their assessment areas.
- The bank's loan-to-deposit ratio is reasonable based on the bank's performance context and lending opportunities within its assessment areas.
- The distribution of loans by borrower income and business size reflects a reasonable penetration throughout the assessment areas.

**SCOPE OF EXAMINATION**

This Performance Evaluation (PE) is an assessment of Texas Heritage National Bank's ability to meet the credit needs of the communities in which it operates. The bank was evaluated under the Small Bank performance criteria. Conclusions regarding the bank's lending performance within the Daingerfield AA are based on residential real estate, agriculture, consumer, and commercial loans originated from January 1, 2006 to December 31, 2008. Conclusions regarding the bank's lending performance within the Upshur County AA are based on residential real estate and consumer loans originated from January 1, 2006 to December 31, 2008.

**DESCRIPTION OF INSTITUTION**

Texas Heritage National Bank (THNB) is a \$98 million bank that is wholly owned by Daingerfield Holding Company. The bank is located at 107 Webb Street in Daingerfield, TX. The bank has three additional full service branches located in Omaha, Ore City, and Sulphur Springs, along with a motor bank located in Daingerfield. Each branch is within sixty miles of bank headquarters. The bank has five Automated Teller Machines, with one at each location including the motor bank. The bank is retail oriented and offers a full range of loan and deposit products. As of December 31, 2008 gross loans and leases totaled \$75.1 million and represented approximately 77% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio as of December 31, 2008:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
1-4 Family Real Estate	16,009	21.31
Commercial Real Estate	5,926	7.89
Commercial	12,130	16.15
Agriculture	30,238	40.25
Consumer	6,651	8.85
Other	4,170	5.55
<b>Total Loans</b>	<b>75,124</b>	<b>100.00</b>

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 January 21, 2004.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

The Board has designated three assessment areas for the purposes of CRA. They consist of the Daingerfield Assessment Area, Upshur County Assessment Area, and Sulphur Springs (Hopkins County) Assessment Area. Due to the limited time the Sulphur Springs branch has been opened (less than 3 months), we did not include the loan activity in this assessment area (AA) as part of our review. The AAs meet the requirements of the Community Reinvestment Act (CRA). The designated areas do not exclude any low- and moderate-income geographies.

Competition in the area is strong with the principal competition coming from nationally chartered banks headquartered in the AAs and immediate surrounding areas. Additionally, branches from larger banks headquartered outside the AA have claimed a small portion of the market. Major employers in the AA include Lone Star Steel, North East Texas Community College, Welsh Power Plant, Atlas Roofing, and the school districts for the surrounding areas. Interviews with local business and civic organizations revealed that uncertainty about the economy could be impacting loan demand. Furthermore, employment figures could deteriorate significantly with the fall-out from the Pilgrim's Pride's bankruptcy and impending layoffs by Lone Star Steel which were announced in early 2009.

### **Daingerfield Assessment Area**

Census tract 9507 in Cass County and census tracts 9501, 9502, and 9503 in Morris County are included in the AA and will be referenced as the Daingerfield AA for the purposes of this Report. These are contiguous tracts which include such communities as Daingerfield, Omaha, Naples, and Hughes Springs.

The Daingerfield AA has a total population of 18,207 and contains only middle-income tracts (four). The unemployment rate for this AA is 2.62%. The percentage of households below the poverty level is high at 18.50%. The following table provides a description of the area based on census data and 2008 Department of Housing and Urban Development (HUD) information.

<b>Demographics and Economic Characteristics of Daingerfield Assessment Area</b>	
<i>Population</i>	
Number of Families	5,280
Number of Households	7,301
<i>Geographies</i>	
Number of Census Tracts	4
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2008 HUD-Adjusted MFI	\$41,800
<i>Economic Indicators</i>	
Unemployment Rate (2000) Census	2.62%
2000 Median Housing Value	\$44,681
% of Households Below Poverty Level	18.50%

**Upshur County Assessment Area**

Census tract 9501 in Upshur County is the only census tract included in this AA and will be referenced as the Upshur County AA for the purposes of this Report. This is a contiguous tract which includes such communities as Ore City and Diana. Upshur County is part of the Longview Metropolitan Statistical Area. The bank does not have the resources or strategic intent to serve the entire MSA. Therefore, only census tracts which the bank realistically plans to serve are included in the AA.

This portion of the AA has a total population of 7,359 and consists of one middle-income tract. The unemployment rate for this AA is 2.20%. The percentage of households below the poverty level is 15.39%. The following table provides a description of the area based on census data and 2008 Department of Housing and Urban Development (HUD) information.

<b>Demographics and Economic Characteristics of Upshur County Assessment Area</b>	
<i>Population</i>	
Number of Families	2,145
Number of Households	2,709
<i>Geographies</i>	
Number of Census Tracts	1
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$40,970
2008 HUD-Adjusted MFI	\$47,500
<i>Economic Indicators</i>	
Unemployment Rate (2000) Census	2.20%
2000 Median Housing Value	\$52,200
% of Households Below Poverty Level	15.39%

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Management has demonstrated satisfactory performance in meeting the credit needs of the community. The following sections provide detail of our assessment of each performance criteria.

### **Loan-to-Deposit Ratio**

The loan-to-deposit (LTD) ratio of Texas Heritage National Bank (THNB) is reasonable given the bank's size, financial condition, and AA credit needs. The bank's quarterly average LTD ratio compares favorably to other banks headquartered in the AA and has averaged 84.89% since the prior CRA Examination in 2004. The average LTD ratio of banks headquartered within the AA, regardless of size, during the same time period was 72.58%.

Institution	Assets (000s) (as of 12/31/08)	Average LTD Ratio
Texas Heritage National Bank	\$97,900	84.89%
Lone Star State Bank	\$35,666	89.33%
Morris County National Bank, Naples	\$80,060	70.51%
First State Bank, Avinger	\$18,996	84.42%
First National Bank, Hughes Springs	\$176,069	58.29%
Security State Bank, Ore City	\$52,630	60.35%

### Lending in Assessment Area

A substantial majority of the bank's lending activity is located within their assessment areas. Our review focused on the bank's primary product lines: 1-4 family residential real estate, agriculture, consumer, and commercial loans. We reviewed a sample of 20 commercial loans, 20 agriculture loans, 40 consumer loans, and all 1-4 family residential real estate loans originated and reported under the Home Mortgage Disclosure Act (HMDA) from January 1, 2006 through December 31, 2008. This sample revealed approximately 76% of the number of loans and 66% of the dollar amount of loans were extended in the bank's assessment area. Illustrated below is the breakdown of lending by category:

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential RE	141	81.98	31	18.02	172	7,826	71.65	3,096	28.35	\$10,922
Commercial	17	85.00	3	15.00	20	634	61.54	397	38.46	\$1,031
Agriculture	11	55.00	9	45.00	20	1,890	50.86	1,826	49.14	\$3,716
Consumer	23	57.50	17	42.50	40	297	69.56	130	30.44	\$427
<b>Totals</b>	<b>192</b>	<b>76.19</b>	<b>60</b>	<b>23.81</b>	<b>252</b>	<b>10,647</b>	<b>66.15</b>	<b>5,449</b>	<b>33.85</b>	<b>\$16,096</b>

Source: Loan Sample; Data reported under HMDA

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

#### Daingerfield AA

The distribution of loans within the Daingerfield AA reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. For the Daingerfield AA the primary lending products are residential real estate loans, commercial loans, consumer loans, and agriculture loans.

Our review of 2006-2008 HMDA data indicates that while the distribution of residential loans to low-income borrowers is below that of the AA's demographics, residential loans

to moderate-income borrowers is near that of the AA’s demographics. One reason for the lower distribution to low-income borrowers is the fact that the bank only received eight loan applications from low-income borrowers. Of these, six were originated. Furthermore, affordable housing stock is limited in this area, as the median cost of housing in the Daingerfield AA is \$47 thousand, while a low-income person earns less than \$21 thousand based on the HUD updated 2008 median family income. Additionally, over 18% of the households in this area live below the poverty level.

Borrower Distribution of Residential RE Loans in Daingerfield 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
	22.69	10.81	18.43	16.22	20.78	13.51	38.11	59.46

Source: Loan Sample, U.S. Census Data

The distribution of consumer loans reflects a reasonable penetration to borrowers of different income levels. While the distribution of loans to low-income borrowers is below that of the AA’s demographics, the distribution of loans to moderate-income borrowers exceeds the AA’s demographics. Furthermore, as indicated above, over 18% of the households in this area live below the poverty level, thus negatively impacting their ability to qualify for a loan.

Borrower Distribution of Consumer Loans in Daingerfield 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
	22.69%	5.00%	18.43%	20.00%	20.78%	30.00%	38.11%	45.00%

Source: Loan sample; U.S. Census Data

The distribution of loans to businesses and farms reflects a reasonable penetration. Approximately fifty-five percent of businesses and two percent of farms do not report their revenues; therefore the percentage of businesses/farms by income level may not accurately reflect a true percentage in each income category. Our sample of business loans inside the assessment area revealed a substantial majority of the bank’s commercial loans were to businesses with revenues less than \$1 million. Likewise, our sample of loans to farms in the Daingerfield area revealed a substantial majority of originations were to farms with revenues less than \$1 million.

<b>Borrower Distribution of Loans to Businesses in the Daingerfield Assessment Area</b>				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses	42.76%	2.31%	54.93%	100%
% of Bank Loans in AA by #	95.00%	5.00%	0%	100%
% of Bank Loans in AA by \$	89.43%	10.57%	0%	100%

Source: Loan sample; U.S. Census Data

<b>Borrower Distribution of Loans to Farms in the Daingerfield Assessment Area</b>				
Farm Revenues	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Farms	97.83%	0.00%	2.17%	100%
% of Bank Loans in AA by #	95.00%	5.00%	0%	100%
% of Bank Loans in AA by \$	90.31%	9.69%	0%	100%

Source: Loan sample; U.S. Census Data

### Upshur County Assessment Area

The distribution of loans within the Upshur County AA reflects a reasonable penetration among borrowers of different income levels. The primary loan products for this AA were residential real estate and consumer loans.

The distribution of residential loans within the Upshur County AA reflects a reasonable penetration among borrowers of different income levels. While the level of residential loans to low-income borrowers is below that of the AA’s demographics, the level of residential loans to moderate-income borrowers exceeds the demographics of the AA. It should also be noted that in the Upshur County AA, the median cost of housing is \$52 thousand, while low-income persons in this area earn less than \$24 thousand with approximately 15% of the households living below the poverty level.

<b>Borrower Distribution of Residential RE Loans in Upshur County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Loan Type	20.33	7.46	18.88	28.36	24.94	22.39	35.85	40.30

Source: Loan Sample, U.S. Census Data



The distribution of consumer loans reflects an excellent penetration to borrowers of different income levels. The distribution of consumer loans to both low- and moderate-income borrowers exceeds the AA’s demographics.

<b>Borrower Distribution of Consumer Loans in Upshur County AA</b>								
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
	20.33%	25.00%	18.88%	20.00%	24.94%	15.00%	35.85%	40.00%

*Source: Loan sample; U.S. Census Data*

**Geographic Distribution of Loans**

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

**Responses to Complaints**

Texas Heritage National Bank has not received any 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.