



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 03, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Kilgore National Bank
Charter Number 24051**

**410 North Kilgore Street
Kilgore, TX 75662**

**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.

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INSTITUTION'S CRA RATING

This institution is rated *Satisfactory*.

Kilgore National Bank 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 other area banks.
- ◆ A majority of the bank's loans are extended within its assessment area.
- ◆ Credit activity is reasonably distributed to borrowers of different income levels and businesses of different sizes.

DESCRIPTION OF INSTITUTION

Kilgore National Bank is a \$24 million bank located at 410 North Kilgore Street, Kilgore, Texas. The bank is solely owned by its shareholders and operates out of its one location in Kilgore. In addition to walk-in facilities, the bank offers drive-in deposit and withdrawal services and a drive-up automated teller machine (ATM). Kilgore National Bank is best characterized as a small community bank offering a full range and variety of loan and deposit products. As of June 30, 2002, loans totaled \$11.6 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	3,476	29.76
Commercial Loans	2,098	17.96
Residential Real Estate Loans	3,911	33.48
Consumer Loans	2,144	18.36
Agricultural Loans	52	0.44
TOTAL	11,681	100.00

There are no legal impediments or other factors, which inhibit the bank's ability to meet the credit needs of the community. This is the bank's first CRA Examination.

DESCRIPTION OF THE ASSESSMENT AREA

The Board has designated specific census tracts and block numbering areas (BNAs) within portions of Gregg, Smith, and Rusk Counties as their assessment area. These census tracts and BNAs make up a contiguous assessment area which includes parts of the Longview - Marshall and Tyler Metropolitan Statistical Areas (MSAs). The assessment area is comprised of eight middle-income and two upper-income tracts and includes census tracts 102, 103, 104, 105, 106, and 107 in Gregg County and 15.98 and 18.98 in Smith County and BNAs 9502.98 and 9503.98

in Rusk County. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income geographies. The following table provides a description of the 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	14,127
Number of Households	18,851
<i>Geographies</i>	
Number of Census Tracts/BNA	10
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	80.00%
% Upper-Income Census Tracts/BNA	20.00%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$28,301
2001 HUD-Adjusted MFI	\$41,460
<i>Economic Indicators</i>	
Unemployment Rate	7.30%
2001 Median Housing Value	\$48,144
% of Households Below Poverty Level	17.99%

The bank's designated assessment area has a total population of 51,511. The distribution of families by income level, regardless of census tract or BNA location, consists of the following: 19.69% are low-income, 15.86% are moderate-income, 22.53% are middle-income, and 41.93% are upper-income. Owner occupied housing represents 66.3% of total available housing. Major employers in the Kilgore area include Kilgore ISD, Vertex - RSI, Kilgore College, Region VII Service Center, and Laird Memorial Hospital. Competition within the assessment area is strong with numerous banks, credit unions, and savings and loan associations. The local economy is considered stagnant with an unemployment rate of 7.30%, as of August 2002.

Contact with the local Economic Development Corporation indicated the primary community credit needs for the assessment area are small business loans and residential mortgages. This organization also noted the lack of availability of low-income housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio of Kilgore National Bank is reasonable given the amount of time the bank has been in operation (less than two years) and the bank's size (the smallest bank within the assessment area). The bank's quarterly average loan-to-deposit ratio is 48.19%, from the fourth quarter, 2000, through the second quarter, 2002. The average loan-to-deposit ratio of other banks within the assessment area for the same time period was 61.49%. Following is a table detailing individual bank sizes and average loan-to-deposit ratios:

INSTITUTION	ASSETS (AS OF 06/30/02)	AVERAGE LTD RATIO
First State Bank - Overton	\$49,182M	36.52%
Citizens Bank - Kilgore	\$236,941M	49.76%
White Oak State Bank	\$35,934M	71.63%
City National Bank - Kilgore	\$146,552M	68.93%
Gladewater National Bank	\$28,697M	80.60%
<i>Kilgore National Bank</i>	<i>\$24,371M</i>	<i>48.19%</i>

Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 20 residential mortgage loans, 20 commercial loans, and 20 consumer loans, originated since January 2001. This sample reflected that approximately 83% of the number and 85% of the dollar amount of loans reviewed 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)	%
Commercial	17	85.00	3,434	95.60	3	15.00	158	4.40
1 – 4 Family	16	80.00	1,088	63.40	4	20.00	628	36.60
Consumer	17	85.00	139	83.23	3	15.00	28	16.77
Total Reviewed	50	83.33	4,661	85.13	10	16.67	814	14.87

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 and businesses of different sizes. Kilgore National Bank's primary product lines are commercial and commercial real estate loans, residential mortgage loans, and consumer loans. Our sample of loans inside the assessment area included 20 residential mortgage loans totaling \$1.2 million, and 20 consumer loans totaling \$138M. The distribution of home purchase and consumer loans generally approximates the income

characteristics of the assessment area. While residential real estate and consumer loans extended to low-income families and households are below the demographics of the assessment area, the number and dollar amounts of consumer loans extended to moderate-income families and households exceed those demographics. 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	19.69%		15.86%		22.53%		41.92%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	5.00	1.03	15.00	7.28	15.00	11.65	65.00	80.04

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	25.80%		13.59%		17.60%		43.01%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	10.00	3.11	30.00	16.17	10.00	9.49	50.00	71.24

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 2,276 businesses in the assessment area with revenues less than \$1 million. This number represents 92.41% of all businesses within the assessment area that reported revenues. Our sample of commercial loans inside the assessment area included 20 loans totaling \$3.5 million. Although commercial lending does not exactly match the business demographics, the distribution of commercial loans is more heavily weighted to businesses with revenues less than \$1 million. As the bank becomes more entrenched within the community and lending activity increases, these percentages are anticipated to more closely align with the demographics.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	92.41	7.59
% of Bank Loans in AA #	60.00	40.00
% of Bank Loans in AA \$	57.57	42.43

Geographic Distribution of Loans

All census tracts and BNAs within the bank's assessment area are either middle- or upper-income geographies. There are no low- or moderate-income geographies within the assessment area. Therefore, we did not complete a review of the bank's geographic distribution of loans, as analysis would have been meaningless.

Responses to Complaints

Management has not received any written complaints related to CRA performance.

Fair Lending Review

An analysis of 2001 and 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 bank has not received a comprehensive fair lending examination.