



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 27, 2003

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 75604-2516**

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.

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 satisfactory based on its size and complexity.
- 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.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

DESCRIPTION OF INSTITUTION

First National Bank of Hughes Springs (FNB) is a \$147 million bank which is wholly owned by Hughes Springs Corporation. The bank is located at 505 East First Street, Hughes Springs, Texas. The bank also has full service branches located in Liberty City, Omaha, Atlanta, Daingerfield and Jefferson, Texas in addition to a drive-through facility located in Queen City. As of September 30, 2003, loans totaled \$81 million and represented 57% 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	27,411	33.81
Commercial Loans	24,013	29.63
Residential Real Estate Loans	19,634	24.22
Consumer Loans	10,005	12.34
Total	81,063	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 August 9, 1999.

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 and Morris has been designated as one assessment area and census tracts 102, 104, and 107 in Gregg County is the second assessment area. These assessment areas meet the requirements of the Community Reinvestment Act and do not arbitrarily exclude low and moderate-income geographies.

Cass, Marion and Morris Counties

The adjacent counties of Cass, Marion, and Morris are rural counties located approximately 40 miles from Longview, Texas and serve as the bank's assessment area for all the bank's branches, with the exception of Liberty City. The assessment area includes no low-income tracts, two moderate-income tracts, 12 middle-income tracts and no upper-income tracts. The following table provides a description of the bank's assessment area based on 1990 census data and 2002 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	15,254
Number of Households	20,542
<i>Geographies</i>	
Number of Census Tracts/BNA	14
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	14.00%
% Middle-Income Census Tracts/BNA	86.00%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
2002 HUD-Adjusted MFI	\$36,100
<i>Economic Indicators</i>	
Unemployment Rate	3.00%
2002 Median Housing Value	\$36,450
% of Households Below Poverty Level	24%

These counties have a total population of 53,166. The distribution of families by income level, regardless of census tract location, consists of the following: 24.68% are low income, 17.50% are moderate income, 20.37% are middle income, and 37.45% are upper income. Major employers in the area include Lone Star Steel, International Paper, local area school districts and other small manufacturing businesses. Competition in the area is considered moderate with several local banks, bank branches, and credit unions. The local economy is considered stable with an unemployment rate of 3.00%.

Contacts with local business organizations in Hughes Springs revealed the primary community credit needs for the assessment 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 part of Gregg County, which is part of the Longview-Marshall Metropolitan Statistical Area. These tracts include the communities of Liberty City, Gladewater, and portions of Kilgore and serve as the assessment area for the bank’s branch in Liberty City, Texas. This branch has total assets of \$12 million and represents approximately 8% of the bank’s total assets. The assessment area includes only three middle-income census tracts with no tracts designated as low, moderate or upper-income. The following table provides a description of the bank's assessment area based on 1990 census data and 2002 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	4,691
Number of Households	6,515
<i>Geographies</i>	
Number of Census Tracts/BNA	3
% 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	\$28,627
2002 HUD-Adjusted MFI	\$41,500
<i>Economic Indicators</i>	
Unemployment Rate	4%
2002 Median Housing Value	\$40,900
% of Households Below Poverty Level	23%

The three census tracts have a total population of 17,902 based on 1990 census data. The distribution of families by income level, regardless of census tract location, consists of the following: 24.98% are low income, 16.22% are moderate income, 22.64% are middle income, and 36.16% are upper income. A majority of the residents in Liberty City commute to surrounding cities such as Longview, Kilgore and Tyler to work. Liberty City is primarily a residential community with very limited commercial businesses. Major employers in the assessment area include Sabine Independent School District and small retail service providers. Competition is strong with numerous banks, bank branches and credit unions in the surrounding area. The local economy is considered stable with an unemployment rate of 4.00%.

Contact with a local real estate broker in Liberty City revealed the primary community credit needs for the assessment area are residential and consumer loans. She also noted the lack of houses available in the area, especially affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNB is reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 66.22% since the prior CRA examination in August of 1999. The average loan-to-deposit ratio of banks within the assessment area, regardless of size, for the same time period, was 61.47%.

Institution	Assets (000s) (as of 9/30/03)	Average LTD Ratio
First National Bank, Hughes Springs	146,575	66.30
National Bank of Daingerfield	71,422	67.82
Morris County National Bank, Naples	70,666	62.99
Lone Star State Bank, Lone Star	33,138	75.90
First State Bank, Avinger	19,662	66.35
First National Bank, Linden	53,256	47.78
Bloomburg State Bank, Bloomburg	11,226	47.68

Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 50 residential purchase loans, 50 commercial loans and 60 consumer loans which originated since August 1999. 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	45	90.00	2,345	88.26	5	10.00	312	11.74
Commercial	41	82.00	5,909	57.24	9	18.00	4,415	42.76
Consumer	45	75.00	352	75.11	15	25.00	117	24.89
Total Reviewed	131	81.88	8,606	63.99	29	18.12	4,844	36.01

Lending to Borrowers of Different Incomes and to Businesses of Different

Sizes

Cass, Marion, and Morris Counties

The distribution of loans within the 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. While home purchase loans to low-income families are at a low level compared to the demographics of the assessment area, consumer loans exceed the percentage of low and moderate-income households. Borrowing for home purchases by low-income individuals is limited as approximately 24% of the households in this assessment area are below poverty level.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	24.68		17.50		20.37		37.44	
LOANS BY YEAR	% of Number	% of Amount						
	14.29	4.14	14.29	11.73	32.14	17.62	39.29	66.50

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	29.6		14.6		15.8		40.0	
LOANS BY YEAR	% of Number	% of Amount						
	45.83	47.19	16.67	8.02	12.50	12.21	25.00	32.59

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 2,740 businesses in the assessment area; however, revenue information was not reported for approximately 20% of the businesses. 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 substantial majority of the bank's commercial loans were to businesses with revenues less than one million.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	75.99	4.34
% of Bank Loans in AA #	70.00	30.00
% of Bank Loans in AA \$	44.28	55.72

Gregg County Census Tracts 102, 104, and 107

The distribution of loans within the 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. There were no home purchase loans to low-income families during the reported period and is reflective of the factors discussed in the assessment area's performance context. Additionally, borrowing for home purchases by low-income individuals is limited due to a very low level of affordable housing stock available in the area. Loans to moderate-income families exceed the demographics.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	24.98		16.22		22.64		36.15	
LOANS BY YEAR	% of Number	% of Amount						
	0	0	17.6	12.0	5.9	1.3	76.5	86.7

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	34.0		13.4		17.0		35.6	
LOANS BY YEAR	% of Number	% of Amount						
	19.05	10.13	33.33	35.86	19.05	14.70	28.57	39.32

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 1,673 businesses in the assessment area; however, revenue information was not reported for approximately 22% of the businesses. 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 OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	71.85	5.92
% of Bank Loans in AA #	85.71	14.29
% of Bank Loans in AA \$	72.25	27.75

Geographic Distribution of Loans

Cass, Marion and Morris Counties

The distribution of loans reflects a reasonable penetration throughout the assessment area. The distribution of home purchase loans is near the percentage of owner occupied houses and consumer loans exceed the percentages of households located in the various tract categories.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied	0		11.38		88.62		0	
LOANS BY YEAR	% of Number	% of Amount						
	0	0	7.14	4.76	92.86	95.24	0	0

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
%of AA Households	0		10.55		89.45		0	
LOANS BY YEAR	% of Number	% of Amount						
	0	0	20.83	23.90	79.17	76.10	0	0

The geographic distribution of business loans is also reasonable based on the bank's locations and the demographics of each area. While our sample did not include any commercial loans located in the moderate tracts, these tracts include a very small percentage of businesses and are located the furthest from the bank's branch in Marion County.

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		3.72		96.28		0	
LOANS BY YEAR	% of Number	% of Amount						
	0	0	0	0	100.00	100.00	0	0

Gregg County Census Tracts 102, 104 and 107

A geographic analysis of lending activity in the Gregg County assessment area was not performed. There are no low or moderate-income geographies located in this assessment area, 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 dated August 9, 1999.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.