



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 14, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Edgewood
Charter Number 10624

119 Front Street
Edgewood, TX 75117

Office of the Comptroller of the Currency
Dallas Field Office
17300 Dallas Parkway, Suite 2020
Dallas, TX 75248

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.

The First National Bank (FNB) Edgewood exhibits lending performance that reflects satisfactory response to the credit needs in its community. Factors that support the rating include:

- The loan-to-deposit ratio is reasonable given the size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of loans originated during the review period are in the AA.
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels.

SCOPE OF EXAMINATION

FNB was evaluated using the Small Bank Community Reinvestment Act (CRA) examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

The scope of the CRA examination covered a period from January 5, 2005, the date of the prior Performance Evaluation (PE), to June 14, 2010, the date of the current evaluation. We identified residential and consumer loans as FNB's primary loan products. To evaluate the lending performance, we selected a sample of 20 residential and 20 consumer non-real estate loans originated from January 5, 2005 through June 16, 2010.

We evaluated the loan-to-deposit ratio, using a comparison of other financial institutions with headquarters located within the AA over the prior 21 quarters.

DESCRIPTION OF INSTITUTION

FNB is headquartered in Edgewood, Texas. As of March 31, 2010, FNB had total assets of \$18 million. FNB is wholly owned by its shareholders, the largest group being the Pickens family. Its only location is the main office in Edgewood. There is one automatic teller machine located at a non affiliated convenience store in Edgewood. No branches have been opened nor closed during the evaluation period. FNB offers a range of traditional deposit and loan products and services commensurate with its size with a focus on consumer and residential lending.

As of March 31, 2010, net loans represent 39 percent of total assets. A summary of the loan portfolio is as follows:

Loan Portfolio Summary by Loan Product March 31, 2010				
<i>Loan Category</i>	<i>Dollar Volume \$ (000)</i>	<i>% of Dollars</i>	<i>Number of Loans</i>	<i>% of Number</i>
Consumer	1,054	15%	110	51%
Residential	3,613	51%	54	25%
Commercial	1,576	22%	41	19%
Agriculture	701	10%	10	5%
Other	109	2%	2	>1%
Total	7,053	100%	217	100%

Source: March 31, 2010 Consolidated Report of Condition

At the prior CRA examination dated January 5, 2005, a Satisfactory rating was assigned. There are no legal or financial factors impeding the bank's ability to help meet the credit needs of the AA.

DESCRIPTION OF ASSESSMENT AREA

FNB's AA includes all of Van Zandt County. The AA includes 10 census tracts, of which none are designated low- or moderate-income tracts. There are eight tracts designated middle-income, and two tracts designated upper-income. The AA meets the requirements of the regulation and does not arbitrarily exclude any low or moderate income geographies.

Edgewood is located in Van Zandt County approximately 55 miles east of the Dallas Fort Worth metro area. According to the U.S. Census Bureau, as of 2009, Van Zandt County had an estimated population of 48,140. Economic conditions can be characterized as relatively stable. The weighted average of HUD updated MSA Median Family Income for the AA is \$45,600. There are relatively few employment opportunities in Edgewood. The largest employers in Van Zandt County are the area school districts. The economy of the AA depends heavily on the Canton trade days, which attracts out-of-town people to area hotels and restaurants. Competition in the AA consists of nine other financial institutions, four of which are branches of larger national financial institutions. Per the June 30, 2010 FDIC Deposit Market Share Report, FNB maintains approximately 3% of the market deposits.

OCC held a discussion with a representative of the Edgewood Economic Development Committee. He indicated that credit needs in the area were limited, with small businesses having the largest credit need. He said that as far as he understood, FNB and other area banks had done a good job meeting the credit needs of the area.

The following table contains a summary of economic and demographic data for the AA.

Demographic Information for Van Zandt County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	10	0%	0%	80%	20%
Population by Geography	48,140	0%	0%	81%	19%
Owner Occupied Housing Units by Geography	14,713	0%	0%	80%	20%
Businesses by Geography	4,453	0%	0%	86%	14%
Farms by Geography	232	0%	0%	85%	15%
Family Distribution by Income Level	13,790	17%	15%	21%	47%
Household Distribution by Income Level	18,233	22%	14%	17%	47%
Census Median Family Income (MFI)					
		\$36,380	Median Housing Value	\$67,414	
HUD – Adjusted MFI: 2009		\$45,600	Households Below the Poverty Level	14%	
HUD – Adjusted MFI: 2008		\$43,600	Unemployment Rate	3%	
HUD – Adjusted MFI: 2007		\$41,800			

Source: 2009 Business Geodemographic Data; 2000 U.S. Census Data

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNB has demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on the primary lending products originated since the previous CRA examination: consumer and residential real estate loans. These random loan samples were used to determine the extent of lending within the AA and the distribution of loans by borrower income level.

Loan-to-Deposit Ratio

FNB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, competition, office location, financial condition, and AA credit needs. The quarterly average LTD ratio is 49 percent over the 21 quarters since the last CRA examination. This ratio reasonably compares with other financial institutions of similar size, location, and product offerings. The average LTD ratio for financial institutions headquartered within the AA over the same period of time was 62 percent. The small population of the AA, income levels, limited loan demand, and the amount of competition in the area are primary factors for the bank's lower LTD ratio.

Financial Institution	Assets (3/31/2010)	Market Share of Deposits	Average LTD Ratio
<i>FNB Edgewood</i>	17,776	3.18%	49.04%
FSB Van, TX	43,155	7.50%	85.53%
Citizens NB of Wills Point	84,428	15.69%	67.37%
FSB of Ben Wheeler, TX	99,886	18.29%	51.82%
The FNB of Canton	111,389	16.06%	55.29%
Mineola Community Bank, SSB	158,209	5.76%	64.13%
Total			62.20%

Lending in Assessment Area

A substantial majority of loans originated in the review period are in FNB’s AA. In our sample of 20 residential and 20 consumer loans, 95 percent of the number and 98 percent of the dollar volume of loans sampled were made in the AA. The following table reflects the distribution of loans, by number and dollar volume, which originated inside and outside the AA.

Lending in Van Zandt County										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (000’s)	%	\$ (000’s)	%	
Consumer	19	95	1	5	20	217	96	10	4	227
Residential RE	19	95	1	5	20	2,398	98	50	2	2,448
Totals	38	95	2	5	40	2,615	98	60	2	2,675

Source: Loan Sample.

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

The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels.

Consumer loans:

Borrower Distribution of Consumer Loans in Van Zandt County								
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	21.55	30	14.02	25	17.22	20	47.21	25

Source: Loan Sample and U.S. Census data.

The distribution of consumer loans to borrowers reflects excellent penetration among borrowers of different income levels. Based on our loan sample, FNB originated 30 percent of consumer loans to low-income borrowers during the review period. This compares favorably to the demographic data which indicates 22 percent of households in the AA are low-income. Also, FNB made 25 percent of consumer loans to moderate-income borrowers during the review period compared to 14 percent of families in the AA that are moderate-income.

Residential loans:

Borrower Distribution of Residential Real Estate Loans in Van Zandt County								
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
Residential	16.86	5	15.26	10	20.99	10	46.89	75

Source: Loan Sample and U.S. Census data.

The distribution of residential lending to low-income and moderate-income (LMI) borrowers is reasonable. Although FNB’s penetration to LMI borrowers appears less than satisfactory compared to the percentage of LMI families within the assessment area, this is typical with residential real estate data as results are often skewed toward middle-and upper-income borrowers. This is primarily due to the traditional qualification requirements for a home purchase. These qualifications often demand greater income levels given the significant closing costs and down payment requirement, which many LMI individuals are unable to produce. Additionally, the demographic data indicates 14 percent of total households are below the poverty level of \$22,800 based upon 2009 HUD adjusted family income. Also, the 2009 median housing value is \$67,414. Residential lending to moderate-income borrowers is reasonable as compared to the demographic data for moderate-income families.

Geographic Distribution of Loans

FNB’s assessment area does not contain any low- or moderate-income census tracts; therefore, a geographical analysis would not be meaningful.

Responses to Complaints

FNB did not receive any complaints or public comments regarding CRA performance during this evaluation 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 needs.