



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

October 18, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**GNB Financial, National Association
Charter Number 13698**

**100 East California Street
Gainesville, TX 76240**

**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.

GNB Financial, N.A. (GNB) has a satisfactory record of meeting community credit needs. This rating is based upon the following:

- A majority of loans sampled, representing 85% of the number and 79% of the dollar volume, originated within the bank's assessment area;
- The loan-to-deposit ratio of 73% meets the standards for satisfactory performance given the bank's size and financial condition.
- The distribution of the loans made to borrowers of different incomes and to businesses of different sizes meets the standards for satisfactory performance;
- The geographic distribution of home mortgage loans reflects an excellent dispersion to low- and moderate-income census tracts within the combined assessment areas; and
- The geographic distribution of business loans reflects a reasonable dispersion to low- and moderate-income census tracts within each of the assessment areas.

DESCRIPTION OF INSTITUTION

GNB is a large community bank with its main office located in Gainesville, Texas. As of December 31, 2003, the bank had total assets of \$229 million. The bank is wholly owned by a two-tiered holding company - Texas United Nevada, which is wholly owned by Texas United Bancshares, Inc., a Texas corporation.

GNB was rated "Satisfactory" in its previous CRA public evaluation dated April 6, 1999. The bank does not have financial or legal obstacles that affect its ability to meet community credit needs.

GNB is a full service institution, providing various deposit and loan products. It also offers additional banking services – Internet banking, where customers are allowed access to account information and have the ability to conduct a number of transactions; Telenet Plus ®, a voice response system that all customers can use to check balances and transfer funds between accounts; and a Trust Department. The bank also actively participates with The Habitat for Humanity Gainesville's Area.

GNB serves Cooke, Denton, and Ellis Counties through seven banking locations and eight automated teller machines (ATM):

Office	Location	Hours of operation	
		Lobby	Drive-up

Main office	100 E. California, Gainesville	9-4 M-F	8-6 M-F, 8-10 S	
	201 E. California			ATM
Gainesville Wal-Mart	1800 Lawrence	10-7 M-F 10-2 S		ATM
Sanger	1405 Chapman Drive, Sanger	9-3 M-TH 9-6 F	7-7 M-F 9-1 S	ATM
	2120 N. Stemmons Freeway			ATM
The Colony	4400 Main Street	9-5 M-TH 9-6 F 8-12 S	7-7 M-F 8-12 S	ATM
Muenster	1000 E. Division, Suite A	9-3 M-F	9-3 M-TH 9-6 F	ATM
Ennis	2200 W. Ennis Avenue	9-4 M-F	8-6 M-F 8:30-12 S	ATM
Waxahachie	401 Ferris Avenue	9-3 M-TH 9-6 F	8-6 M-F 8:30-12 S	ATM

In 2003, the bank closed two locations: one in Valley View, Texas and the other in The Colony, Texas. These locations were closed for cost efficiencies, and did not cause a negative impact to the community.

As of December 31, 2003, GNB had a “net loans to total assets” ratio of 68%. The following table portrays the principal loan mix of the bank:

Loan Category	\$ (000)	%
Commercial (including real estate)	83,106	52
Residential Real Estate	32,987	21
Farmland	15,664	10
Consumer	14,488	9
Construction & Development	7,233	5
Obligations of states and political subdivision in the U.S.	3,164	2
Other Loans	1,457	1
Total	\$158,099	100%

DESCRIPTION OF COOKE COUNTY

One of GNB’s assessment areas is Cooke County. This assessment area meets the requirements of the regulatory guidelines and does not arbitrarily exclude any low-or moderate-income areas. The following table reflects the demographics for the assessment area (AA):

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA		
Census Year	1990	2000
Population		
Number of Families	8,613	10,035
Number of Households	11,581	13,649
Geographies		
Number of Census Tracts	9	9
# - % Low-Income Census Tracts	0 – 0%	0 – 0%
# - % Moderate-Income Census Tracts	1 – 11%	2 – 22%
# - % Middle-Income Census Tracts	3 – 33%	3 – 33%
# - % Upper-Income Census Tracts	5 – 56%	4 – 44%
<i>Median Family Income (MFI)</i>		
1990 MFI for AA	\$24,585	
2002 HUD-Adjusted MFI	\$36,100	
2000 MFI for AA		\$36,100
2003 HUD-Adjusted MFI		\$36,711
Economic Indicators		
Unemployment Rate		4.8%*
2002 Median Housing Value	\$50,249	
2003 Median Housing Value		\$73,484
% of Households on Social Security	33%	31%
% of Households Below Poverty Level	17%	14%
% of Households on Retirement	13%	17%

*Based on Annualized 2003 Bureau of Labor Statistics (BLS) Data for Cooke County, TX

The total occupied housing units are 87% with owner-occupied housing at 62%, rental-occupied housing at 25%, and vacant housing units are at 13%. Based on the 2000 Census information, the total occupied housing units are 91% with owner-occupied housing at 65%, rental-occupied housing at 25%, and vacant housing units are at 9%.

Cooke County has six financial institutions that operate within the area. They are comprised of other national banks, branches of larger national and state banks, and credit unions, consisting of, but not limited to First State Bank, Guaranty National Bank, First American Bank SSB, and First National Bank of Saint Jo. The economy of the area is improving and is considered diverse. The largest employers in the bank's assessment area are Alan Ritchey, Inc., Weber Aircraft, North Central Texas College, and Prime Outlets-Gainesville, and Gainesville State School. The largest industries are manufacturing and retail trade.

The credit needs of the community were determined through interviews with individuals associated with the Habitat of Humanity and the Cooke County Economic Development Office. The community contacts indicated area financial institutions are very cooperative and are diligent in trying to meet the community's credit needs.

DESCRIPTION OF DENTON COUNTY

Another assessment area is Denton County. This assessment area also meets the requirements of

the regulatory guidelines and does not arbitrarily exclude any low-or moderate-income areas. The following table reflects the demographics for the assessment area (AA):

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA		
Census Year	1990	2000
Population		
Number of Families	70,331	112,211
Number of Households	102,025	159,062
Geographies		
Number of Census Tracts	48	56
# - % Low-Income Census Tracts	3 – 6%	2 – 4%
# - % Moderate-Income Census Tracts	6 – 13%	6 – 11%
# - % Middle-Income Census Tracts	19 – 40%	26 – 46%
# - % Upper-Income Census Tracts	20 – 42%	22 – 39%
<i>Median Family Income (MFI)</i>		
<i>1990 MFI for AA</i>	\$38,754	
2002 HUD-Adjusted MFI	\$66,500	
<i>2000 MFI for AA</i>		\$55,854
2003 HUD-Adjusted MFI		\$66,500
Economic Indicators		
Unemployment Rate		5.0%*
2002 Median Housing Value	\$84,405	
2003 Median Housing Value		\$127,303
% of Households on Social Security	11%	11%

*Based on Annualized 2003 Bureau of Labor Statistics (BLS) Data for Denton County, TX

The total occupied housing units are 91% with owner-occupied housing at 52%, rental-occupied housing at 39%, and vacant housing units are at 9%. Based on the 2000 Census information, the total occupied housing units are 95% with owner-occupied housing at 61%, rental-occupied housing at 34%, and vacant housing units are at 5%.

Denton County has 30 financial institutions that operate within the area. These institutions are comprised of other national banks, branches of larger national and state banks, savings and loans institutions, and credit unions, consisting of, but not limited to Bank One, National Association, Wells Fargo Bank Texas, N.A., Compass Bank, Washington Mutual Bank, FA, and Colonial Savings, FA. The economy of the area is improving and diverse. The largest employers in this assessment area are the University of North Texas, Coors Distributing, and Peterbilt Trucking Company. The largest industries are manufacturing and services.

DESCRIPTION OF ELLIS COUNTY

The final GNB assessment area is Ellis County. This assessment area was added in July 2003 and meets the requirements of the regulatory guidelines and does not arbitrarily exclude any low-or moderate-income areas. The following table reflects the demographics for the assessment area (AA):

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA		
Census Year	1990	2000
Population		
Number of Families	23,139	29,871
Number of Households	28,681	37,056
Geographies		
Number of Census Tracts	19	22
# - % Low-Income Census Tracts	1 – 5%	0 – 0%
# - % Moderate-Income Census Tracts	5 – 26%	4 – 18%
# - % Middle-Income Census Tracts	12 – 63%	14 – 64%
# - % Upper-Income Census Tracts	1 – 5%	4 – 18%
<i>Median Family Income (MFI)</i>		
1990 MFI for AA	\$38,754	
2002 HUD-Adjusted MFI	\$66,500	
2000 MFI for AA		\$55,854
2003 HUD-Adjusted MFI		\$66,500
Economic Indicators		
Unemployment Rate	6.9%*	
2002 Median Housing Value	\$66,075	
2003 Median Housing Value		\$85,832
% of Households on Social Security	24%	21%
% of Households Below Poverty Level	13%	8%
% of Households on Retirement	11%	15%

*Based on Annualized 2003 Bureau of Labor Statistics (BLS) Data for Ellis County, TX

The total occupied housing units are 91% with owner-occupied housing at 66%, rental-occupied housing at 25%, and vacant housing units are at 9%. Based on the 2000 Census information, the total occupied housing units are 95% with owner-occupied housing at 72%, rental-occupied housing at 23%, and vacant housing units are at 5%.

Ellis County has 15 financial institutions comprised of other national banks, branches of larger national and state banks, and credit unions consisting of, but not limited to Ennis State Bank, Citizens National Bank in Waxahachie, Guaranty Bank, Bank of America N.A., and Wells Fargo Bank Texas N.A. The economy of the area is improving and is also considered diverse. The largest industries in this assessment area are heavy construction, health services, wholesale trade durable goods, and auto repair-services and parking.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

We took a sample of loans made in each assessment area to determine GNB's performance as it relates to community reinvestment. The December 31, 2003 Call Report indicates that the majority of GNB's loan portfolio consists of commercial loans. However, a good portion of the loan portfolio is also in residential real estate. Since the bank is a Home Mortgage Disclosure Act (HMDA) reporter, we used its HMDA information for our analysis.

In addition, the tables in this evaluation reflect the 1990 Census demographic data versus the

2000 Census demographic data. The 1990 Census information is being used because this period represents a larger component of data more relevant to the analysis of the bank's adherence to CRA.

Overall, GNB is meeting the standards of satisfactory performance. The bank's strengths are lending within its assessment area and small business loans made to moderate-income borrowers.

Lending in Assessment Area

Based on our review of GNB's lending patterns, the bank exceeds the standards of satisfactory performance. The lending pattern revealed 85% were within the bank's assessment areas, totaling \$39.9 million or 79%. Since the bank is a HMDA reporter, we combined all home loans made in all of the bank's assessment areas. We also took a sample of 20 commercial loans for each assessment area, Cooke, Denton, and Ellis Counties.

TOTAL LOANS REVIEWED								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home mortgage loans	606	85%	37,104	79%	111	15%	9,976	21%
Commercial	53	88%	2,806	89%	7	12%	363	11%
Total Reviewed	659	85%	39,910	79%	118	15%	10,339	21%

Loan-to-Deposit Ratio

GNB's average loan-to-deposit (LTD) ratio is 73%. Given the bank's size, financial condition, and assessment area credit needs, the bank meets the standard for satisfactory performance. The 19-quarter average LTD ratio does appear favorable when compared to other financial institutions within the assessment area. Information for these financial institutions is detailed in the following table:

Institution	Assets ('000's) As of 06-30-2003	Average LTD Ratio
Northstar Bank	254,428	86%
Citizens National Bank, Waxahachie	360,815	85%
Guaranty Bank	515,920	81%
National Peer Group	100,000 – 300,000	77%
GNB Financial, N.A.	228,797	73%
Ennis State Bank	96,398	69%
Sanger Bank	59,058	57%

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

The bank meets the standard for satisfactory performance in lending to borrowers of different incomes and to businesses of different sizes.

We combined all of the home mortgage loans originated within all of the bank's assessment areas. GNB's home mortgage lending to low-income borrowers is small and needs improvement in comparison to the percentage of low-income families within the assessment area. However, the bank's penetration of home mortgage lending to moderate-income borrowers is good as seen in the following table:

Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	13%		15%		22%		50%	
LOANS by TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home mortgage loans	4	3	7	4	9	6	31	42

Management has stated that an explanation for the small penetration to low- and moderate-income borrowers is that several of the home mortgage loans originated were made to either businesses or bank employees. As such, income information is not required and was not obtained for these borrowers. Another mitigating factor is that substantial portions of the bank's assessment areas are on a fixed-income. The requirements of closing costs and down payments are more feasible for middle- and upper-income borrowers when purchasing a home. Typically, borrowers with higher incomes are able to produce these funds, which many lower income borrowers are unable to do.

Moreover, GNB has originated an adequate number of loans to businesses with revenues of less than \$1.0 million within all three assessment areas. We reviewed a sample of 20 commercial loans totaling \$1.1 million originated within the bank's Cooke County assessment areas. Of the loans sampled, 16 were made to businesses with revenues of less than \$1.0 million. These loans totaled \$910 thousand. The following table illustrates the bank's lending penetration to businesses of different sizes within the Cooke County AA:

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES Cooke County AA		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94%	6%
% of Bank Loans in AA #	80%	20%
% of Bank Loans in AA \$	83%	17%

We reviewed a sample of 20 commercial loans totaling \$994 thousand originated within the bank's Denton County assessment area. Of the loans sampled, 11 were made to businesses with revenues of less than \$1.0 million. These loans totaled \$672 thousand. The following table illustrates the bank's lending penetration to businesses of different sizes within the Denton County AA:

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Denton County AA		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	94%	6%
% of Bank Loans in AA #	55%	45%
% of Bank Loans in AA \$	68%	32%

We reviewed a sample of 20 commercial loans totaling \$1.1 million originated within the bank’s Ellis County assessment area. Of the loans sampled, 17 were made to businesses with revenues of less than \$1.0 million. These loans totaled \$1.0 million. The following table illustrates the bank’s lending penetration to businesses of different sizes within the Ellis County AA:

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Ellis County AA		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	95%	5%
% of Bank Loans in AA #	85%	15%
% of Bank Loans in AA \$	90%	10%

Geographic Distribution of Loans

GNB has a reasonable dispersion of loans in its assessment areas (AA). As stated earlier, Cooke County is in a non-MSA and as such, HMDA geographic information, i.e., census tract information, is usually not obtained. As a result, “N/A” is a reflection of this information not being obtained.

The number and dollar volume of residential loans made to low- and moderate-income census tracts is excellent as detailed in the table below. Of the loans categorized as “N/A”, 39.9% of the number and 28.0% of the dollar volume were made within Cooke County.

RESIDENTIAL LOANS – COMBINED AAs								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0.2%		4.4%		44.2 %		51.2%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	0.6	0.8	6.1	6.3	41.0	42.6	12.4	22.3

The number of business loans made to the moderate-income census tracts is excellent in comparison to the percentage of businesses in the Cooke County assessment area, as shown in the following table:

BUSINESS LOANS – Cooke County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0%		17%		31%		52%	
Loan Type	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Commercial	0	0	45	48	25	21	30	31

Commercial loans sampled = 20 loans totaling \$1.1 million

The number of business loans made to the low-income census tracts is excellent. However, the commercial loan penetration to moderate-income census tracts is less than satisfactory in comparison to the percentage of businesses in the Denton County assessment area, as shown in the following table:

BUSINESS LOANS – Denton County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	4%		14%		35%		47%	
Loan Type	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Commercial	5	2	0	0	70	68	25	30

Commercial loans sampled = 20 loans totaling \$1.3 million

The lack of penetration to moderate-income census tracts is because the branches located in Denton County are not in close proximity to these tracts. Despite this, management needs to make a more concerted effort to reach these communities.

Because Ellis County was not added to the bank’s assessment areas until July 2003, the demographics reflected in the table below are based on the 2000 Census data. The commercial loan penetration to moderate-income census tracts is excellent in comparison to the percentage of businesses in the assessment area, as shown in the following table:

BUSINESS LOANS – Ellis County AA								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0%		21%		56%		23%	
Loan Type	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Commercial	0	0	40	41	60	59	0	0

Commercial loans sampled = 20 loans totaling \$1.1 million

Responses to Complaints

GNB has not received any CRA related complaints during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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