



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

December 15, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Mineola
Charter Number 5127

200 N. Pacific
Mineola, TX 75773

Office of the Comptroller of the Currency

Longview Field Office
1800 NW 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.

INSTITUTION'S CRA RATING: This institution is rated "Needs to Improve".

The First National Bank of Mineola needs to improve its record of meeting community credit needs. This rating is based on the following:

- The bank's loan-to-deposit ratio does not meet standards based on the bank's performance context and lending opportunities within the assessment area.
- A majority of the bank's loans are extended within its assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels.

SCOPE OF EXAMINATION

We performed a full scope review of Wood County, Texas, which is the bank's only assessment area. Conclusions regarding the bank's lending performance are based on residential mortgage and consumer loans for the years 2007, 2008 and 2009. These products make up approximately 83% of the bank's loan portfolio. Our sample included all residential purchase loans, including loans sold on the secondary market, as well as a sample of consumer loans made during this timeframe.

Our review also included contacting local business groups in the assessment area. Contacts stated the primary need in each area is for residential loans and consumer loans. One contact also noted the lack of affordable housing and noted that housing sales had slowed significantly in 2008 and 2009. Contacts also noted that local financial institutions do offer products that help meet area credit needs.

DESCRIPTION OF INSTITUTION

The First National Bank of Mineola, Texas (FNB) is a \$30 million bank which is wholly owned by First Mineola, Inc. The bank has one full service location in Mineola with no automatic teller machines. As of September 30, 2009, loans totaled \$7 million and represented 24% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio.

Loan Category	\$ (000)	%
Residential Real Estate Loans	3,603	50.86
Consumer Loans	2,293	32.36
Commercial Real Estate Loans	746	10.53
Commercial Loans	443	6.25
Total	7,085	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 "Needs to Improve" during the prior CRA Examination dated September 30, 2006.

DESCRIPTION OF ASSESSMENT AREA

The Board has designated Wood County as its assessment area. This county includes the communities of Mineola, Quitman, Hawkins, Winnsboro, Alba and other small rural communities. Each of the census tracts in this area have been designated as middle income areas. 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 bank's assessment area based on census data and 2008 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF WOOD COUNTY	
<i>Population</i>	
Number of Families	10,663
Number of Households	14,578
<i>Geographies</i>	
Number of Census Tracts/BNA	8
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	100.00%
% Upper-Income Census Tracts/BNA	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	36,380
2008 HUD-Adjusted MFI	43,600
<i>Economic Indicators</i>	
Unemployment Rate	8.39%
2000 Median Housing Value	67,536
% of Households Below Poverty Level	14.10%

Source: 2000 US Census and 2008 HUD updated MFI

The bank's designated assessment area has a total population of 36,752. The distribution of families by income level, regardless of census tract location, consists of the following: 16.57% are low income, 17.06% are moderate income, 24.26% are middle income, and 42.11% are upper income. Major employers include Wal-Mart Supercenter, Mineola ISD, and Brookshire's Foodstore. Competition within the assessment area is strong with several banks and financial institutions located throughout the assessment area. The local economy is considered stable with an unemployment rate of 8.39%.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall lending performance continues to need improvement. The bank's loan-to-deposit ratio remains significantly less than other banks in the assessment area and the average quarterly ratio has not changed since the previous examination. Without sufficient loan volume, less consideration is given to other rating factors when determining the bank's performance under the Community Reinvestment Act. The low loan-to-deposit ratio is a result of a conservative lending philosophy that has been in place for many years and management has not augmented performance through sufficient community development activity. While management has implemented a reverse mortgage program and begun to offer FNMA and FHA loans, the level of lending activity continues to be inconsistent with the bank's financial capacity, local economic conditions, and the credit needs of the community.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNB remains less than satisfactory and needs improvement based on the performance context and the assessment area credit needs. The bank's quarterly loan-to-deposit ratio was 26.34%, representing a modest increase from 23.48% calculated at the previous CRA examination in September 2006. However, the average loan-to-deposit ratio remains unchanged at 26%. The average loan-to-deposit ratio of assessment area banks with offices in Mineola for the same time period was 60.33% with these banks seeing overall increases in the ratio during this same timeframe.

Institution	Assets (000s) (as of 9/30/09)	Average LTD Ratio
First National Bank of Mineola	30,084	26.75%
Mineola Community Bank, Mineola	153,163	67.69%
Wood County National Bank, Quitman	63,304	59.27%
Bank Texas, Quitman	202,947	65.39%
The First National Bank of Emory	106,990	48.99%

There are no identified factors prohibiting the bank from expanding their lending activities. Management's lending culture and conservative philosophy are the primary reasons for the low loan-to-deposit ratio. FNB does not have any qualified investments or community development loans to compensate or supplement the low ratio. The bank did begin a program to provide reverse mortgages in 2008 and FHA loans 2009 in order to meet the credit needs of borrowers. However, the number and dollar volume of loans originated under this program did not significantly impact the bank's loan-to-deposit ratio.

Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed all 12 residential mortgages originated since the previous CRA evaluation in 2006 and a sample of 20 consumer loans which originated since September 2006. This sample reflected that approximately 69% of the number of loans and 66% of the dollar amount of loans in our sample

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)	%
Residential	9	75.00	611	68.59	3	25.00	280	31.41
Consumer	13	65.00	134	55.33	7	35.00	108	44.67
Total Reviewed	22	68.75	745	65.75	10	31.25	388	34.25

Source: Data collected by the bank.

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. The impact of this distribution is limited by the bank's overall low level of lending. The First National Bank's primary product lines are residential and consumer; therefore, each of these loan types was included in this review. Commercial loans make up a small percentage of the loan portfolio and were not included in this analysis.

The distribution of residential purchase loans reflects a reasonable distribution among borrowers of different income levels. The distribution of home purchase loans generally approximates the income characteristics of the assessment area. While home purchase loans to low-income families are below the demographics of the assessment area, home purchase loans by moderate-income families exceed the percentage of moderate-income families. Borrowing for home purchases by low-income individuals is limited due to the low level of affordable housing stock available in the area. Additionally, 14% of the population residing in the assessment area is below poverty level while the median value of a home is \$68M.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	16.57		17.06		24.26		42.11	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	11.11	4.91	22.22	22.93	22.22	29.99	44.44	42.28

Source: Data collected by bank; U.S. Census data

The distribution of consumer loans reflects a good penetration among borrowers of different income levels. The distribution of loans to low-income borrowers exceeds the percentage of low income households in the assessment area. The distribution of loans to moderate income borrowers by number is less than the percentage of moderate-income households but equal by the dollar amount of loans.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	21.20		15.33		19.68		43.79	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	35.00	36.91	10.00	14.94	25.00	18.54	30.00	29.60

Source: Data collected by bank; U.S. Census data

Geographic Distribution of Loans

All census tracts within the bank's assessment area are middle-income geographies. There are no low- or moderate-income geographies in the assessment area. Therefore, we did not complete a review of the bank's geographic distribution of loans.

Responses to Complaints

Management has not received any written complaints related to CRA performance since the prior CRA examination.

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.