



SMALL BANK

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

PUBLIC DISCLOSURE

April 19, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Northeast National Bank
Charter Number 21059**

**1438 Oates Drive
Mesquite, TX 75150**

**Comptroller of the Currency
Dallas South
500 North Akard Street Suite 1600
Dallas, TX 75201**

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*”.

- Northeast National Bank’s loan-to-deposit ratio is reasonable given the bank’s size, assessment area needs, and the competitive banking market within the designated assessment area. The quarterly average loan-to-deposit ratio of 74.83% is in line with competitor banks and meets the standards for satisfactory performance.
- A majority of loans, both in number and dollar volume, are made within the bank’s designated assessment area (AA). Our review of twenty consumer and twenty commercial loans revealed a 78% in/out ratio.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA, primarily to moderate, middle and upper income census tracts. The volume of lending to low income groups is limited since there is only one census tract in the bank’s AA which is designated as a low income census tract.
- There were no consumer complaints regarding Northeast National Bank’s CRA performance during this evaluation period.

DESCRIPTION OF INSTITUTION

Northeast National Bank is a \$42 million community bank that is 100% owned by Northeast Bancshares Delaware, Incorporated which is a single bank holding company. Northeast Bancshares Delaware, Incorporated is 100% owned by Northeast Bancshares, Incorporated which is a Texas corporation headquartered in Mesquite, Texas.

The bank is located at 1438 Oates Drive, Mesquite, Texas. The bank offers several walk-up and drive-in teller windows. An automatic teller machine (ATM) is located on the bank premises, and an additional ATM is available at the Triumph Pharmacy located at 4402 Broadway in Mesquite, Texas. Northeast offers a variety of credit and deposit products and services commensurate with its size and the credit needs of the assessment area. The primary loan products are, owner and non-owner occupied residential real estate, construction/development, commercial and consumer loans.

The following table depicts the bank's loan mix as of December 31, 2002:

Loan Category	\$ (000)	%
Commercial Real Estate Loans	6,579	27.48%
Commercial Loans	11,421	47.70%
Construction & Land Development Loans	3,626	15.14%
Residential Real Estate Loans	623	2.60%
Consumer Loans	1,694	7.08%
Total	23,943	100.00%

Northeast National Bank's previous CRA performance evaluation, dated November 1, 1999, was rated *Satisfactory*. The bank currently faces some legal proceedings, however the bank remains financially capable of meeting the credit needs of the community it serves.

DESCRIPTION OF THE ASSESSMENT AREA

Northeast National Bank's assessment area consists of 144 census tracts which includes the cities of Mesquite and Garland, and surrounding census tracts in the bordering cities of Rockwall and Rowlett, as well as eastern Dallas County and sections of the southern edge of Collin and northern edge of Kaufman counties. The assessment area does not arbitrarily exclude low or moderate income areas. The bank is located in Mesquite, Texas which is approximately 15 miles east of Dallas, to the north of Interstate 30 and east of Interstate 635. The majority of households in the assessment area are located in the middle and upper income census tracts, and there is only one low income census tract in the designated assessment area.

Local economic conditions are stable, and reflect that of Dallas/Fort Worth Metroplex area. Local residents often commute into the Dallas/Fort Worth metroplex for employment, however many residents work within the city limits of Mesquite. The area has numerous retailers including Towneast Mall which houses over 220 retail stores. Restaurants are also a major industry in the area. Largest employers are United Parcel Service, The City of Mesquite, Mesquite Independent School District and several manufacturing plants. The bank is surrounded by a significant number of branches of large banks, several credit unions and locally owned state and national banks. Our CRA community contact revealed that general banking needs are being met within the bank's assessment area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	203,857
Number of Households	302,394
<i>Geographies</i>	
Number of Census Tracts/BNA	144
% Low-Income Census Tracts/BNA	1%
% Moderate-Income Census Tracts/BNA	18%
% Middle-Income Census Tracts/BNA	49%
% Upper-Income Census Tracts/BNA	32%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$38,754
2000 HUD-Adjusted MFI	\$55,854
2003 Estimated HUD-Adjusted MFI	\$65,000
<i>Economic Indicators</i>	
Unemployment Rate	6.2%
1990 Median Housing Value	\$84,582
% of Households Below Poverty Level	7%

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Northeast National Bank's average loan to deposit ratio compares favorably with that of similar local community banks. The average ratio meets the standards for satisfactory performance.

Institution	Assets (as of 12/31/02)	Average LTD Ratio
Lakeside National Bank	37,896	50.07%
First State Bank	158,384	74.63%
First National Bank of Sachse	70,172	83.89%
<i>Northeast National Bank</i>	<i>41,806</i>	<i>74.83%</i>

Lending in Assessment Area

Based on a random sample of twenty consumer loans and twenty commercial loans, the majority of the loans originated within the assessment area. This resulted in an overall in/out ratio of 78% which meets the standards for satisfactory performance. The following table reflects the results of the sampled loans:

TOTAL LOANS REVIEWED (1/1/00 – 12/31/02)								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Consumer	14	76.37%	139	70.00%	6	23.63%	43	30.00%
Commercial	17	83.15%	2,157	85.00%	3	16.85%	437	15.00%
Total Reviewed	31	82.71%	2,296	78.00%	9	17.29%	480	22.00%

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

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CONSUMER (1/1/00 – 12/31/02)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	17.70%		17.00%		21.50%		43.80%	
LOANS BY PRODUCT	% of Number	% of Amount						
Consumer loans	30.00%	19.23%	40.00%	51.10%	15.00%	9.89%	15.00%	19.78%

Based on the sample of 20 consumer loans, the majority of consumer loans were made to low/moderate income groups in both number and dollar volume.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES (1/1/00 – 12/31/02)		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses ³	45,188	3,834
% of Bank Loans in AA #	85.00%	15.00%
% of Bank Loans in AA \$	83.15%	16.85%

Demographics of the AA reflect a majority of businesses have annual revenues less than \$1 million. Our sample included 20 commercial loans. The large majority of the number and dollar volume are loans to small businesses.

RESIDENTIAL REAL ESTATE (1/1/00 – 12/31/02)								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	15.90%		17.60%		23.30%		43.20%	
LOANS BY PRODUCT	% of Number	% of Amount						
Home Purchase	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%
Home Imp.	10.00%	5.08%	10.00%	16.95%	20.00%	7.63%	60.00%	70.34%
Re-fiances	0.00%	0.00%	25.00%	16.46%	50.00%	59.49%	25.00%	24.05%

All HMDA reportable loans for the years 2001-2002 were used to determine lending to individuals based on different income levels. The bank does not make a high volume of real estate loans since they do not offer long-term mortgage products. Strong competition from other financial institutions for real estate loans is another factor which contributes to the low level of real estate lending. The majority of the reported loans are primarily those made to real estate investors. Northeast National Bank demonstrates marginally satisfactory performance in lending to low and moderate income categories when compared to the AA characteristics. While there are twenty six moderate income tracts in the bank's AA, there is only one low income census tract in the bank's AA. The majority of the census tracts in the bank's assessment area are middle and upper income census tracts.

Geographic Distribution of Loans

Distribution of loans within the assessment area meets the standards of satisfactory performance. Based on bank records as of March 31, 2004, 19.83% of bank loans are made to moderate income census tracts within the assessment area while 47.58% of bank loans are made to middle income census tracts. The bank made 32.59% of bank loans to upper income census tracts. While there are no bank loans identified in the low census tracts, it is important to understand that only one of one hundred forty four census tracts in the bank's assessment area has been designated as "low" income.

Qualified Investments and CD Services (Optional)

The bank does not have any qualified investments/CD services.

Responses to Complaints

The bank has not received any CRA related consumer complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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