



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 21, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Kemp
Charter Number 5932

100 State Highway 274
Kemp, TX 75143

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 major factors supporting this rating include:

- The distribution of home loans reflects reasonable penetration among borrowers of different income levels, including loans to borrowers of low- and moderate-incomes.
- The distribution of business loans reflects reasonable penetration among businesses of different sizes, including small businesses as defined by the regulation.
- A substantial majority of the primary loan products, originated during the review period, are to borrowers within the assessment areas.
- The loan-to-deposit ratio is reasonable.

SCOPE OF EXAMINATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of The First National Bank of Kemp (FNBK) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of June 21, 2010. The rating covered the period between July 21, 2004 and June 21, 2010. The agency rates CRA performance of an institution consistent with the provisions set forth in 12 C.F.R. § 25 Appendix A.

FNBK's primary loan products are residential real estate and commercial loans. FNBK is required to report data in accordance with the requirements of the Home Mortgage Disclosure Act (HMDA). HMDA data was tested and found to be reliable and the data for 2005 to 2009 is used to evaluate residential real estate performance in this evaluation. To evaluate commercial loans, we selected a sample of 47 non-farm / non-residential, commercial and industrial, and construction and development loans originated or purchased between January 1, 2008 and June 21, 2010.

In evaluating the loan-to-deposit ratio, we used a comparison of five similarly situated banks over the prior 24 quarters. These banks were selected for analysis based on their proximity and similar size to FNBK.

DESCRIPTION OF INSTITUTION

FNBK is a full service community bank headquartered in Kemp, Kaufman County, Texas approximately 50 miles southeast of Dallas, Texas. The majority of FNBK stock is owned by the Creecy family with approximately 53% combined ownership. As of March 31, 2010, total assets were \$58 million and total deposits were \$51 million. As of March 31, 2010, approximately 43 percent of Kemp's total assets were loans. The primary loan products are residential real estate and commercial loans. FNBK has two

full service banking offices including the main office in Kemp and a branch in Seven Points, Texas. Both locations offer automated teller machines and drive-thru facilities. The former main office in downtown Kemp and a mini-bank in Kemp were closed in March 2010 and merged into a new larger main office located at the intersection of Highway 274 and U.S. 175 Business. A branch in Trinidad, Texas was closed in September 2006. The main office relocation is intended to be more accessible to the community by being located on a highly traveled highway in Kemp.

FNBK offers a variety of deposit and loan products commensurate with its size and financial resources. Internet banking and 24-hour telephone banking are also offered. FNBK's business strategy focuses on prudently serving the needs of the residents located within its assessment areas.

The primary loan products have not changed since the previous CRA examination. Bank management noted a recent increase in demand for small consumer loans and small business loans. Commercial loans make up 52 percent of the loan portfolio after combining non-farm / non-residential loans with commercial and industrial loans and construction and development loans. As reflected in the table below, loans as of March 31, 2010 are distributed as follows:

Total Loans Outstanding as of 03/31/2010		
Loan Type	Outstanding Balances \$(000)	% of Total Loans
Non-Farm, Non-Residential Real Estate	9,646	38.8
Residential Real Estate	7,616	30.7
Consumer Loans	2,841	11.4
Commercial and Industrial Loans	2,486	10.0
Farm and Agriculture	1,308	5.2
Construction, Land Development, & Other Land	905	3.6
Other	64	0.3
Total Outstanding Loans as of 03/31/2010	24,866	100.00%

Source: The March 31, 2010 Federal Financial Institutions Examination Council's (FFIEC) Consolidated Reports of Condition and Income (Call Report).

There are no legal or financial impediments that hinder FNBK's ability to meet the credit needs of its assessment areas. The bank was rated Satisfactory at its last CRA examination dated July 21, 2004.

DESCRIPTION OF ASSESSMENT AREAS

Kaufman County Assessment Area (AA)

The Kaufman County AA is comprised of five whole census tracts in southern Kaufman County. Specifically the AA consists of census tracts 508, 510, 511, 512, and 513. Kaufman County is located in the Dallas-Plano-Irving metropolitan division of the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA). The AA includes the cities of Crandall, Kaufman, Kemp, and Mabank. The main office is located in Kemp, Texas in the north central portion of census tract 513. Other census tracts in the AA are located to the north and northwest of the main office. The AA meets the requirements of the CRA and does not arbitrarily exclude low- or moderate-income areas.

FNBK's competition consists of branches of American National Bank of Texas (Terrell), Citizens State Bank (Tyler), First State Bank (Athens), Prosperity Bank (Houston), and Southside Bank (Tyler). Competition in Kaufman and Henderson Counties is abundant with 20 banking entities and 53 banking locations serving approximately 103 thousand residents in Kaufman County and approximately 79 thousand residents in Henderson County.

There are no low-income census tracts in the AA. There are two moderate, three middle, and no upper-income census tracts. Based on 2000 census data, the total population for the AA is 28,665 with approximately 10 thousand households. The local economy is slightly depressed as it is highly dependent on jobs outside the AA in the Dallas area, local government jobs, medical facilities, and a few small businesses located in the AA. The primary employers in the AA are the independent school districts, local government, and medical facilities including Texas Health Presbyterian Hospital (Kaufman) and Kemp Care Center (nursing home facility).

Based upon 2009 U.S. Housing Urban Development (HUD) updated Median Family Income, the weighted average income for the AA is \$68,700. There are approximately 10,707 housing units at an average cost of \$79 thousand with 75 percent owner occupied.

While conducting the assessment of CRA performance, we contacted a local organization. The contact indicated that the lending needs of the community include home purchase loans. The contact also indicated that there are two communities in the area, one high-end community and one affordable community, which are having trouble selling homes given the current depressed economy.

The following is a summary of some demographic information for this AA:

Demographic Information for the Kaufman County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	5	0%	40.0%	60.0%	0%
Population by Geography	28,665	n/a	22.2%	77.8%	n/a
Owner-Occupied Housing by Geography	7,994	n/a	18.2%	81.8%	n/a
Businesses by Geography	2,933	n/a	23.0%	77.0%	n/a
Farms by Geography	135	n/a	11.9%	88.1%	n/a
Family Distribution by Income Level	7,821	22.6%	22.9%	24.0%	30.5%
Household Distribution by Income Level	10,004	24.2%	19.2%	21.8%	34.8%
Census Median Family Income (MFI)		\$56,313	Median Housing Value		\$78,911
HUD - Adjusted MFI: 2009		\$68,700	Families Below the Poverty Level		7.5%
HUD - Adjusted MFI: 2008		\$65,000	Unemployment Rate		4.5%
HUD - Adjusted MFI: 2007		\$63,200			
HUD - Adjusted MFI: 2006		\$66,700			
HUD - Adjusted MFI: 2005		\$65,000			

Source: HUD updated 2000 U.S. Census and Dunn and Bradstreet 2009 Business Geodemographic data.

Henderson County Assessment Area (AA)

The Henderson County AA is comprised of eleven whole census tracts in western Henderson County. Specifically the AA consists of census tracts 9503, 9504, 9505, 9506, 9507, 9508, 9509, 9510, 9511, 9512, and 9513. Henderson County is located in northeast Texas and is adjacent to the Dallas-Fort Worth-Arlington metropolitan statistical area (MSA). The AA includes the cities of Athens, Eustace, Gun Barrel City, Malakoff, and Seven Points. A branch located in Seven Points, TX in the northern portion of census tract 9508 serves a portion of the AA. The other census tracts in the AA are located to the west and southwest of the Seven Points branch with the exception of census tract 9507 which is located northeast of the branch. Seven Points is located approximately nine miles south of Kemp. The AA meets the requirements of the CRA and does not arbitrarily exclude low- or moderate-income areas.

There are no low- or moderate-income census tracts in the AA. There are eight middle- and three upper-income census tracts. Based on 2000 census data, the total population for the AA is 56,472 with approximately 22 thousand households. The local economy is driven by businesses serving the recreational needs of Cedar Creek Lake. The primary employers in the AA consist of retailers, Wal-Mart and Lowes (Gun Barrel City), East Texas Medical Center, local government and independent school districts, and small businesses that serve the lake area.

Based upon 2009 U.S. Housing Urban Development (HUD) updated Median Family Income, the weighted average income for the AA is \$45,600. There are approximately 28,091 housing units at an average cost of \$62 thousand with 62 percent owner occupied.

In conducting the assessment of the bank's performance, we contacted a local organization. This contact indicated that the lending needs of the community include consumer and home refinance loans.

The following is a summary of some demographic information for this AA:

Demographic Information for the Henderson County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	11	0%	0%	72.7%	27.3%
Population by Geography	56,472	n/a	n/a	73.8%	26.2%
Owner-Occupied Housing by Geography	17,444	n/a	n/a	76.0%	24.0%
Businesses by Geography	5,177	n/a	n/a	65.1%	34.9%
Farms by Geography	216	n/a	n/a	61.1%	38.9%
Family Distribution by Income Level	16,095	19.1%	16.6%	21.4%	42.9%
Household Distribution by Income Level	22,217	36.7%	21.7%	18.2%	23.4%
Census Median Family Income (MFI)		\$36,380	Median Housing Value		\$62,048
HUD - Adjusted MFI: 2009		\$45,600	Families Below the Poverty Level		12.1%
HUD - Adjusted MFI: 2008		\$43,600	Unemployment Rate		6.8%
HUD - Adjusted MFI: 2007		\$41,800			
HUD - Adjusted MFI: 2006		\$43,100			
HUD - Adjusted MFI: 2005		\$42,000			

Source: HUD updated 2000 U.S. Census and Dunn and Bradstreet 2009 Business Geodemographic data.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FNBK's performance in the five lending test performance criteria is satisfactory. The Average Loan to Deposit Ratio is comparable with similarly situated banks. The assessment of Lending within the AAs showed a substantial majority of primary loan products originated during the review period in the AAs. The distribution of loans to Borrowers of Different Income Levels and Businesses of Different Sizes reflects reasonable penetration among income brackets including low- and moderate-income and small businesses. The Geographic Distribution of Loans reflects a reasonable dispersion throughout the AAs. There were no CRA-related complaints to evaluate in our assessment of the Response to Complaints.

All criteria of the performance context are documented below:

Loan-to-Deposit Ratio

FNBK's loan-to-deposit (LTD) ratio meets the standards for satisfactory performance. The LTD ratio is reasonable relative to the size, competition, local economy, lending activities, and demographics of the assessment areas. The LTD ratio averaged 44 percent over the 24 quarters since the previous examination.

The LTD ratio is comparable to other community banks of similar size and location. FNBK's previous main office in downtown Kemp is a factor worthy of consideration in the low LTD ratio. The main office in downtown Kemp was one of a few occupied buildings in downtown. The move to the new location is expected to have a positive impact on the LTD ratio. The five comparable banks had average LTD ratios of 52 percent over the previous 24 quarters and they ranged from a low of 47 percent to a high of 55 percent. Other than FNB of Edgewood, the other comparable banks are much larger and headquartered in cities with more vibrant economies than Kemp, TX.

The institutions' size and average LTD ratio are detailed in the following table:

Financial Institution	Total Assets As of 03/31/2010 \$(000)	Average LTD Ratio
The First National Bank of Kemp	58,122	44%
American State Bank (Arp, TX)	218,252	47%
The First National Bank of Canton	111,389	55%
The First State Bank (Rice, TX)	100,356	54%
First State Bank of Ben Wheeler	99,886	52%
The First National Bank of Edgewood	17,776	50%

Source: The Federal Financial Institutions Examination Council's (FFIEC) Consolidated Reports of Condition and Income (Call Report) data gathered from June 30, 2004 to March 31, 2010.

Lending in Assessment Area

FNBK's lending in its AA exceeds the standard for satisfactory performance. A substantial majority of FNBK's primary loan products were originated within the AAs. Ninety-one percent of the number of loans and eighty-one percent of the dollar amount of loans originated / purchased in the primary loan products were within the AAs. The following table details the bank's lending within the AAs by number and dollar amount of loans.

Table 1 - Lending in the Kaufman County and Henderson County AAs

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	63	94.0%	4	6.0%	67	\$3,859	92.6%	\$308	7.4%	\$4,167
Home Improvement	170	91.9%	15	8.1%	185	\$1,084	92.5%	\$88	7.5%	\$1,172
Refinance	13	81.3%	3	18.7%	16	\$1,003	72.9%	\$373	27.1%	\$1,376
Business	42	89.4%	5	10.6%	47	\$4,941	73.1%	\$1,818	26.9%	\$6,759
Totals	288	91.4%	27	8.6%	315	\$10,887	80.8%	\$2,587	19.2%	\$13,474

Source: Commercial Loan Sample for 2008 – 2010 and HMDA data for 2005 – 2009.

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

FNBK’s lending to borrowers of different incomes and businesses of different sizes meets the standard for satisfactory performance. The distribution of loans reflects a reasonable penetration in both the Kaufman County and Henderson County AAs.

Performance in the Kaufman County AA

Lending to borrowers of different incomes and businesses of different sizes in the Kaufman County AA meets the standard for satisfactory performance. The distribution of loans in the Kaufman County AA is reasonable. There is no significant disparity in lending to individuals of different income levels, or businesses of different sizes. Home purchase loans were identified as a credit need in the AA. There are two communities in the AA, one high-end community and one affordable community, which are having trouble selling homes given the current economy.

Home Loans

The distribution of home loans reflects reasonable penetration among borrowers of different income levels. Reasonable penetration exists among low-income borrowers for home purchase loans (10%), excellent penetration for home improvement loans (44%), and poor penetration for home refinance loans (0%) when compared to the percentage each group represents of the total families.

Reasonable penetration exists among moderate-income borrowers for home purchase (19%) and home improvement loans (23%), and excellent penetration for home refinance loans (37%).

There were 118 home loans originated during the review period in the AA. Home purchase loans showed reasonable penetration to low- and moderate-income borrowers as indicated above. Refinance loans showed poor penetration to low-income borrowers. The poor rating in one element is not sufficient to lower the overall rating, as only seven percent of home loans are home refinances. The largest factor in the rating

is home improvement loans, which represented 66 percent of all home loans. Home purchases represented 27 percent of all home loans originated inside the AA. In reaching the reasonable penetration conclusion, we also considered the AA's poverty rate of 10 percent.

The following table shows the distribution of home loan products among borrowers of different income levels.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Kaufman AA								
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
Home Purchase	22.6%	9.4%	22.9%	18.7%	24.0%	25.0%	30.5%	46.9%
Home Improvement	22.6%	43.6%	22.9%	23.1%	24.0%	21.8%	30.5%	11.5%
Refinance	22.6%	0%	22.9%	37.5%	24.0%	37.5%	30.5%	25.0%

Source: HMDA data for 2005 – 2009 and 2000 U.S. Census data.

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. We selected a sample of 21 business loans located within the AA and originated / purchased between January 1, 2008 and June 21, 2010. Eighty-one percent of the number of loans and fifty-five percent of the dollar amount of loans to businesses originated / purchased during the sampling period were made to small businesses. These levels are considered reasonable given the demographic data which shows 78 percent of the area's businesses are small businesses. Small businesses are defined by the regulation as businesses with gross annual revenue of one million dollars or less.

The following table shows the distribution of commercial loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Businesses in Kaufman County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	77.8%	2.3%	19.9%	100%
% of Bank Loans in AA by #	81.0%	19.0%	0%	100%
% of Bank Loans in AA by \$	55.2%	44.8%	0%	100%

Source: Commercial Loan Sample 2008 - 2010 and Dunn and Bradstreet 2009 Business Geodemographic data.

Performance in the Henderson County AA

Lending to borrowers of different incomes and to businesses of different sizes in the Henderson County AA meets the standard for satisfactory performance. The distribution of loans in the Henderson County AA is reasonable. There is no significant disparity in lending to individuals of different income levels or businesses of different sizes. Home refinance loans were identified as a credit need for this AA.

Home Loans

Originated / purchased loans totaled 128 during the review period. Home improvement loans represented the largest group at 72 percent of all home loans. The distribution of home loans reflects reasonable penetration among borrowers of different income levels. Reasonable penetration is noted among low-income borrowers for home purchase (10%) and home refinance loans (20%), and excellent penetration for home improvement loans (29%).

The penetration among moderate-income borrowers in the AA is good for all three home loan products home purchase (21%); home improvement (20%); and refinance (20%). Taking into consideration the AA’s poverty rate of 16 percent, the level of lending to low- and moderate-income individuals is reasonable.

The following table shows the distribution of home loan products among borrowers of different income levels.

Table 3 - Borrower Distribution of Residential Real Estate Loans in Henderson AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Home Purchase	19.1%	9.7%	16.6%	22.6%	21.4%	19.3%	42.9%	48.4%
Home Improvement	19.1%	29.3%	16.6%	19.6%	21.4%	19.6%	42.9%	31.5%
Refinance	19.1%	20.0%	16.6%	20.0%	21.4%	0.0%	42.9%	60.0%

Source: HMDA data for 2005 – 2009 and 2000 U.S. Census data.

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. A sample of 21 commercial loans originated within the AA and originated / purchased between January 1, 2008 and June 21, 2010, were used in the assessment. Eighty-one percent of the number and sixty-one percent of the dollar amount of loans to businesses originated / purchased during the loan sampling period were made to small businesses. This level of penetration is reasonable given the demographic data which shows seventy-seven percent of the AA businesses are small

businesses. Small businesses are defined by the regulation as businesses with gross annual revenue of one million dollars or less.

The following table shows the distribution of commercial loans among different sized businesses in the AA.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	77.8%	2.3%	19.9%	100%
% of Bank Loans in AA by #	80.9%	19.1%	0%	100%
% of Bank Loans in AA by \$	60.8%	39.2%	0%	100%

Source: Commercial Loan Sample 2008 - 2010 and Dunn and Bradstreet 2009 Business Geodemographic data.

Geographic Distribution of Loans

FNBK’s geographic distribution of loans meets the standard for satisfactory performance. The distribution of loans reflects a reasonable dispersion throughout the AAs. There were no conspicuous lending gaps identified within the AAs.

Performance in the Kaufman County AA

The geographic distribution of loans in the Kaufman County AA meets the standard for satisfactory performance. The geographic distribution of loans in this AA reflects a reasonable dispersion throughout the census tracts of different income levels. The Kaufman County AA does not include any low- or upper-income census tracts. The AA has two moderate-income census tracts. These tracts encompass a very small geographic area located in the northern portion of the AA. FNBK is located in the southern portion of the AA.

Home Loans

The geographic distribution of home loans in this AA reflects a reasonable dispersion throughout census tracts of different income levels. Reasonable dispersion is noted for loans originated in moderate-income census tracts for home purchase loans (13%), and poor dispersion for home improvement (3%) and home refinance loans (0%). While lending in the two moderate-income tracts does not compare favorably with the percentage of owner occupied housing, the dispersion is reasonable given additional demographic data, the geographic location, local economy, and competition within the census tracts. It is important to note that only 22 percent of the AA lives in the two moderate-income tracts and a large percentage, approximately 15 percent of the population, in these census tracts is below the poverty level. The tracts are located in the northern portion of the assessment area and are the furthest in proximity to FNBK.

Kaufman County's economy is highly dependent on jobs in the Dallas area, which leads the population northwest of the assessment area and away from FNBK's main office in Kemp, Texas. Competition in Kaufman County is abundant with 16 banking entities and 28 banking locations serving a population of approximately 103 thousand.

The following table details performance as compared to the percentage of owner-occupied housing units in each census-tract income level.

Table 4 - Geographic Distribution of Residential Real Estate Loans in Kaufman AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0%	0%	18.2%	12.5%	81.8%	87.5%	0%	0%
Home Improvement	0%	0%	18.2%	2.5%	81.8%	97.5%	0%	0%
Refinance	0%	0%	18.2%	0%	81.8%	100.0%	0%	0%

Source: HMDA data for 2005-2009 and 2000 U.S. Census data

Business Loans

The geographic distribution of business loans reflects reasonable dispersion throughout the AA. We sampled 21 commercial loans located within the AA and originated / purchased between January 1, 2008 and June 21, 2010. Only one business loan was generated in the two moderate income tracts within the AA. This is considered reasonable given the lack of proximity of the census tracts to the main office location. Competition within the AA and the commuting patterns of the AA are major factors considered in the rating. Opportunities for business loans in these census tracts are very limited.

The following table details the bank's performance as compared to the percentage of businesses in each census-tract income level.

Table 4A - Geographic Distribution of Loans to Businesses in Kaufman County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	0.0%	0	23.0%	4.9%	77.0%	95.1%	0.0%	0

Source: Commercial Loan Sample 2008 - 2010 and Dunn and Bradstreet 2009 Business Geodemographic data.

Performance in the Henderson County AA

A meaningful analysis of the geographic distribution of loans in the Henderson County AA could not be performed since there are no low- or moderate-income census tracts. The AA meets the requirements of the CRA and does not arbitrarily exclude any low- or moderate-income areas.

Responses to Complaints

The FNBK did not receive any CRA-related complaints 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 credit needs.