



PUBLIC DISCLOSURE

August 18, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texas Heritage National Bank
Charter Number 4701

107 Webb Street
Daingerfield, TX 75638

Office of the Comptroller of the Currency

1800 NW Loop 281
Suite 306
Longview, TX 75604-2516

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 Outstanding.

Texas Heritage National Bank (THNB) has an outstanding record of meeting the credit needs of the community. The major factors supporting the institutions rating include:

- The loan-to-deposit ratio is more than reasonable when compared to similarly situated financial institutions and given the local credit needs. The loan-to-deposit ratio averaged 86.6 percent during the evaluation period.
- A substantial majority of loans were extended within the bank's assessment area. Based on a sample of 40 loans, 82.5 percent of the number of loans and 88.5 percent of the dollar amount of loans were extended within the bank's assessment area.
- The distribution of loans demonstrates a reasonable penetration among borrowers of different income levels and businesses of different sizes.

SCOPE OF EXAMINATION

THNB was evaluated under the small bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities.

The lending test for THNB covers its performance from January 1, 2012 to December 31, 2013. Primary loan products are those that have been originated at the highest percentage by dollar and/or number of loans. Primary loan products during this evaluation period are business loans and consumer loans.

Our assessment of the bank's performance also included contacting local community organizations. The contacts indicated the institution is meeting the general banking and credit needs of the community.

DESCRIPTION OF INSTITUTION

THNB is a \$114 million bank with its main office located at 107 Webb Street Daingerfield, Texas. The bank is wholly owned by Daingerfield Holding Company. The bank has full service branches located in Omaha, Ore City, and Sulphur Springs and one drive in location in Daingerfield. The bank also has ATMs at each location.

The bank is a full service institution and provides a traditional variety of deposit products, loan products, and financial services to consumers and commercial business. The bank's loan products include agricultural, consumer, commercial, commercial real estate, and 1-4 family real estate loans. As of June 30, 2014, the bank's loans totaled \$85 million and represented 75 percent of total assets. The following chart reflects the distribution of the bank's loan portfolio:

Loan Category	\$ (000)	%
Residential Real Estate	\$18,094	21.23
Commercial Real Estate	\$34,773	40.80
Commercial Loans	\$12,562	14.74
Consumer Loans	\$6,409	7.52
Agricultural Loans	\$12,136	14.24
Other Loans	\$1,253	1.47
Total	\$85,227	100.00

There are no legal, financial or other factors impeding the bank's ability to meet the community credit needs in its assessment area. The bank's CRA performance was previously rated "Satisfactory" as of February 23, 2009.

DESCRIPTION OF ASSESSMENT AREA (AA)

THNB has designated three assessment areas, Daingerfield AA, Ore City AA, and Hopkins County AA. The Daingerfield AA and Ore City AA were combined (Daingerfield AA) as the one census tract in Ore City is adjacent to the Daingerfield AA and has a similar performance context. The AAs meet the requirements of the Community Reinvestment Act (CRA), and no low or moderate-income geographies are arbitrarily excluded.

Daingerfield Assessment Area

The Daingerfield AA has a total population of 26,804. The AA is comprised of five contiguous census tracts, which includes communities in Morris, Cass, and Upshur counties. All of the census tracts are designated middle income.

The local economy is characterized as good and stable. Economic activity in the area is relatively diverse, with agriculture, services, and small manufacturing companies in the area. Major employers in the AA are U.S. Steel, Pilgrim's Pride Corporation, North East Texas Community College, and local school districts. Demographic information in the AA shows the unemployment rate is 4.46 percent and 16.49 percent of the households are below the poverty level.

Competition from other financial institutions is strong. The bank's competitors include several local community banks and credit unions.

The following table provides a description of the AA based on 2010 census data and 2013 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF DAINGERFIELD ASSESSMENT AREA	
<i>Population</i>	
Number of Families	6,873
Number of Households	9,932
<i>Geographies</i>	
Number of Census Tracts	5
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	100.00%
% Upper-Income Census Tracts	0.00%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$49,458
2013 HUD-Adjusted MFI	\$51,240
<i>Economic Indicators</i>	
Unemployment Rate	4.46%
2010 Median Housing Value	\$75,326
% of Households Below Poverty Level	16.49%

Source: 2010 U.S. Census data

Hopkins County Assessment Area

The Hopkins County AA has a total population of 35,161. The AA is comprised of nine contiguous census tracts, which includes all of Hopkins County. Eight of the census tracts are designated middle income and one is designated upper income.

The local economy is characterized as stable with moderate growth. Economic activity in the area is relatively diverse, with agriculture, services, and small manufacturing companies in the area. Major employers in the AA are Grocery Supply Company, Hopkins County Memorial Hospital, and local school districts. Demographic information in the AA shows the unemployment rate is 4.2 percent and 15.45 percent of the households are below the poverty level.

Competition in the area remains strong with numerous other financial institutions, including local banks, credit unions, and payday lenders.

The following table provides a description of the AA based on 2010 census data and 2013 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF HOPKINS COUNTY ASSESSMENT AREA	
<i>Population</i>	
Number of Families	9,433
Number of Households	13,045
<i>Geographies</i>	
Number of Census Tracts	9
% Low-Income Census Tracts	0.00%
% Moderate-Income Census Tracts	0.00%
% Middle-Income Census Tracts	88.89%
% Upper-Income Census Tracts	11.11%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$48,160
2013 HUD-Adjusted MFI	\$50,500
<i>Economic Indicators</i>	
Unemployment Rate	4.20%
2010 Median Housing Value	\$95,728
% of Households Below Poverty Level	15.45%

Source: 2010 U.S. Census data

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

THNB performance under the lending test is outstanding. The bank's loan-to-deposit ratio is more than reasonable when compared to other peer banks. A substantial majority of lending activity is originated in the AA and there have been no CRA related complaints. The distribution of loans reflects reasonable penetration among individuals of different income levels and excellent penetration for businesses of different sizes.

Loan-to-Deposit Ratio

THNB loan-to-deposit ratio is more than reasonable given the bank size, financial condition, and AA credit needs. This determination is based on the quarterly average loan-to-deposit ratio of 86.6 percent over the last 22 quarters from March 31, 2009 to June 30, 2014. During the evaluation period, THNB's loan-to-deposit ratio ranged from a low of 56.7 percent to a high of 90.8 percent.

The bank's loan-to-deposit ratio compares favorably with other community banks of similar size, location, and product offerings. THNB ranks second among eight similarly situated banks serving its AA. The other seven banks had an average loan-to-deposit ratios averaging 70.9 percent and ranging from 57 percent to 91 percent over the 22 quarters since the last CRA examination

The quarterly average loan-to-deposit ratio for banks in geographies similar to the AA is depicted below.

Institution	Assets (000s) as of 06/30/14	Average LTD Ratio
Texana Bank, N.A., Linden, TX	\$158,244	90.84%
Texas Heritage National Bank, Daingerfield, TX	\$114,360	86.58%
The City National Bank of Sulphur Springs, Sulphur Springs, TX	\$445,656	81.54%
The First National Bank of Gilmer, Gilmer, TX	\$320,472	70.43%
Alliance Bank, Sulphur Springs, TX	\$624,739	66.38%
Gilmer National Bank, Gilmer, TX	\$222,142	65.67%
The First National Bank of Hughes Springs, Hughes Springs, TX	\$237,987	64.92%
The Morris County National Bank of Naples, Naples, TX	\$89,382	56.72%

Lending in Assessment Area

THNB’s lending in the AA exceeds the standards for satisfactory performance. A substantial majority of the bank’s lending activity is within its AA. Our analysis shows that 82.5 percent of the number of loans and 88.6 percent of the dollar amount of loans in the sample were extended within the bank’s AA. Based on the first 20 loans reviewed in each AA for each primary product, the table below details lending activity within the AAs by number and dollar amount of loans originated during the evaluation period.

Lending in Combined AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer Loans	17	85.00%	3	15.00%	20	\$156	88.64%	\$20	11.36%	\$176
Commercial Loans	16	80.00%	4	20.00%	20	\$625	88.40%	\$82	11.60%	\$707
Totals	33	82.50%	7	17.50%	40	\$782	88.56%	\$101	11.44%	\$883

Source: loan sample

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

THNB distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes. The overall borrower distribution for loans in both the Daingerfield AA and Hopkins County AA was reasonable. Both AAs had excellent penetration for business loans and reasonable distribution for consumer loans.

Performance in Daingerfield AA

The borrower distribution of loans in the Daingerfield AA is reasonable. Credit needs identified for the AA were business loans and consumer loans. The distribution of loans to businesses reflects excellent penetration among business of different sizes. Ninety percent of the business loans in the sample were to small businesses. The distribution of consumer loans by borrower income level in the Daingerfield AA reflects reasonable penetration. The percentage of loans to low-income borrowers exceeds the percentage of low-income families in the AA. However, the percentage of loans to moderate-income borrowers is below that of the AAs demographics.

Business Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Our analysis shows 90 percent of the bank’s loans to businesses originated during the loan sampling period were made to small businesses. This is considered excellent penetration as it exceeds the ratio for demographic data that show 72.14 percent of the area’s businesses fall into the small business category. For distribution of loans by dollar amount, 100 percent of the business loans in our sample were below \$200 thousand, which provides additional support for excellent distribution of loans to small businesses.

Borrower Distribution of Loans to Businesses in Daingerfield AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72.14	3.47	24.39	100%
% of Bank Loans in AA by #	90.00	10.00	0.00	100%
% of Bank Loans in AA by \$	83.69	16.31	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Consumer Loans

The distribution of consumer loans by borrower income level in the Daingerfield AA reflects reasonable penetration. The percentage of loans to low-income borrowers closely approximates the percentage of low-income families in the AA. However, the percentage of loans to moderate-income borrowers exceeds that of the AAs demographics.

Borrower Distribution of Consumer Loans in Daingerfield AA								
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	29.15	30.51	15.71	20.34	17.89	27.12	37.25	22.03

Source: loan sample, U.S. Census data.

Performance in Hopkins County AA

The borrower distribution of loans in the Hopkins County AA is reasonable. Credit needs identified for the assessment area were business loans and consumer loans. The distribution of loans to businesses reflects excellent penetration among business of different sizes. Seventy-five percent of the business loans in our sample were to small businesses. The distribution of consumer loans by borrower income level in the Hopkins County AA reflects reasonable penetration. While the percentage of loans to moderate-income borrowers fell in line with the percentage of moderate-income families in the AA. The percentage of loans to low-income borrowers was below that of the AAs demographics.

Business Loans

The distribution of loans to businesses reflects excellent penetration among business of different sizes. Our analysis shows 75 percent of the bank’s loans to businesses originated during the loan sampling period were made to small businesses. This is considered excellent as it meets the ratio for demographic data that show 75.16 percent of the area’s businesses fall into the small business category. For distribution of loans by dollar amount, we found that 80 percent of the business loans in our sample were loans at or below \$200 thousand, which provides additional support for excellent distribution of loans to small businesses.

Borrower Distribution of Loans to Businesses in Hopkins County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.16	3.74	21.10	100%
% of Bank Loans in AA by #	75.00	25.00	0.00	100%
% of Bank Loans in AA by \$	57.11	42.29	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Consumer Loans

The distribution of consumer loans by borrower income level in the Hopkins County AA reflects reasonable penetration. The percentage of loans to moderate-income borrowers falls in line with the percentage of moderate-income families in the AA. However, the percentage of loans to low-income borrowers is below that of the AAs demographics. In reaching a conclusion, we also considered factors such as poverty level, length of time in market, and competition all of which potentially impact the bank’s level of lending to low-income individuals. Based on 2010 Census information, 15.45 percent of households are below the poverty level. THNB has been in the Hopkins County market since 2009 compared to more established institutions in the area. There are also a number of payday and title loan lenders in the area, which typically capture the business of lower income borrowers.

Borrower Distribution of Consumer Loans in Hopkins County AA								
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	22.99	12.77	14.38	14.89	18.84	25.53	43.79	46.81

Source: loan sample, U.S. Census data.

Geographic Distribution of Loans

A geographic analysis of lending activity in the assessment area was not performed. There are no low- or moderate-income geographies located within this assessment area; therefore, an analysis would not be meaningful.

Responses to Complaints

No complaints relating to CRA performance have been received by THNB during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or C.F.R 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSAs lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.