



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 11, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Eagle Lake
Charter Number 7534

100 Commerce Street
Eagle Lake, TX 77434-0000

Office of the Comptroller of the Currency

Houston Field Office
1301 McKinney Street, Suite 1410
Houston, TX. 77010-3031

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.

**FIRST NATIONAL BANK OF EAGLE LAKE
COMMUNITY REINVESTMENT ACT RATING: This institution is rated Satisfactory.**

First National Bank of Eagle Lake has a Satisfactory record of meeting community credit needs. This is based on the following:

- The loan-to-deposit ratio (LTD) is reasonable and the quarterly average has been 60 percent for this evaluation period. This ratio is consistent with competing banks in the Assessment Area (AA).
- A substantial majority of the bank's loans were originated in its AA.
- Loan originations reflect a reasonable distribution among households and families of various income levels and businesses of different sizes within its AA.
- The geographic distribution of loans reflects a reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

First National Bank of Eagle Lake was evaluated under the Small Bank examination procedures which includes the lending test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. Our examination evaluated the bank's lending performance from January 1, 2007 through January 8, 2010.

The bank's primary loan products are business, farm, and consumer loans. Business and farm loans are the largest products by dollar volume, while consumer loans are the largest product by number.

The bank is not required to report data under the Home Mortgage Disclosure Act or the CRA regulation; however, the Board and management have elected to collect borrower information on business gross revenue, consumer income, and census tracts. We tested the integrity of this information and found the census tract data to be reliable. Therefore, we used bank information to determine lending in the AA and the geographic distribution of originated loans. We found the error rate in gross revenue information for business and farm loans and income information for consumer loans exceeded 5 percent. Therefore, we selected a statistically valid sample using bank reports of loan originations in the three categories. The sample for gross revenue and income determination included a total of 20 business loans, 20 farm loans, and 40 consumer loans originated in the AA.

DESCRIPTION OF INSTITUTION

The First National Bank of Eagle Lake is a \$102 million full service community bank headquartered in Eagle Lake, Colorado County, Texas. The bank was chartered December 30, 1904 and continues to be wholly and locally owned by Eagle Lake Bancshares, Inc. Eagle Lake is in a primarily rural and agricultural community known as the “Goose Hunting Capital of the World”.

The bank serves its customers with three full service branch locations and three non-deposit taking automated teller machines (ATMs). In addition to the bank’s own ATMs, bank customers can also use Wells Fargo, National Association (NA) ATMs through out Texas and many other states with no service charge. The bank’s main office and two ATMs are located in Eagle Lake, Texas, in a middle-income census tract. The bank has a branch and an ATM in East Bernard, Texas, located in an upper-income census tract. A third branch is in Columbus, Texas, in an upper-income census tract.

The bank offers an array of standard deposit and loan products and services to help meet the credit needs of its community. Consumer and commercial lending are the bank’s primary focus, with credit concentrations in farming and agricultural loans. The bank offers the traditional deposit products and services of a community bank. Banking hours are reasonable, with lobby hours Monday through Friday. The East Bernard and Columbus branches are open on Saturdays as well. The bank also provides 24 hour internet banking services. As a service, the bank’s website includes a full page dedicated to increasing the financial literacy of the bank’s customers and community.

There are no legal or financial impediments to the bank’s ability to meet the credit and community development needs of its AAs. The bank was rated Satisfactory at its last CRA examination dated July 7, 2004.

Please refer to the bank’s Public File for additional information.

DESCRIPTION OF ASSESSMENT AREA(S)

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FNB Eagle Lake has two AAs described below. The Wharton and Colorado Counties AA is not in a Metropolitan Statistical Area (MSA). The Fort Bend AA is part of the Houston – Sugar Land – Baytown MSA.

Wharton/Colorado Assessment Area

The Wharton and Colorado Counties AA consist of all five census tracts (CTs) of Colorado County and six of eleven CTs in Wharton County. All CTs in this AA are contiguous. Colorado County has two middle-income CTs and three upper-income CTs. Wharton County has one moderate-income CT, three middle-income CTs, and two upper-income CTs. The three middle-income CTs in the Wharton County AA are designated as distressed or underserved based on population loss. The AA meets the

requirements of the regulation and does not arbitrarily exclude any low-or moderate-income areas.

Colorado and Wharton Counties are located a relatively short distance from the Gulf of Mexico and are a reasonable driving distance away from Houston, Texas. This makes the counties prime locations for agriculture or industry as well as a residential location for those working in Houston. Most of the land in the AA is used for farms and ranches, with a large portion of the farmland under cultivation. Rice is the major crop. Soybeans, corn, rye, cotton, milo, hay, watermelons, peaches, and pecans are also grown in significant amounts. Other than farming, major employers in the area include small manufacturers, local school districts, nearby hospitals, and small businesses. According to the Bureau of Labor Statistics, unemployment in Colorado County was 6.6 percent in September 2009. In Wharton County, the unemployment rate for the same period was higher at 7.9 percent.

According to U.S. Census Bureau information, the AA has a population of 42,738 persons. There are 11,467 owner occupied residences and 4,343 occupied rental residences. The weighted average median value of a single family residence is \$59,196 and the weighted average of monthly gross rents is \$392. The weighted average of the updated median family income for 2009 is \$45,600.

The level of banking competition is moderate. There were seven competing financial institutions in the two counties. With the exception of Prosperity Bank, headquartered in the City of El Campo with \$8.9 billion in assets, the other financial institutions have less than \$400 million in assets as of September 30, 2009.

During the examination, we contacted a local community organization. This contact indicated credit needs in the AA were related to farming and ranching, businesses such as sand and gravel, oil and gas, recreation and tourism for hunting, and consumer loans. The contact spoke favorably of this bank and specifically mentioned one business that moved to Eagle Lake because of a loan origination from this bank.

Fort Bend Assessment Area

The Fort Bend AA is in the Houston - Sugar Land - Baytown MSA and includes 21 of the 58 CTs in the county. Of the 21 tracts, one is designated as low-income, three are moderate-income, and seven are middle-income. The remaining ten tracts are upper-income. Since the last CRA examination in 2004, the bank ventured into Fort Bend County because of a greater potential for lending in Fort Bend than in Colorado and Wharton Counties. For the expansion into Fort Bend County, management ensured that the low- and moderate-income CTs in the Richmond and Rosenberg area were included in the AA. Although there is one moderate-income CT in Fort Bend County not included in the AA, it is very close to Harris County. Also, the distance from the nearest branch in East Bernard is a deterrent and serving this tract is not practical. We concluded this AA does not arbitrarily exclude any low-or moderate-income areas.

The Fort Bend County economy is characterized as good and expanding. Fort Bend County is one of the fastest growing counties in the United States. The county had a population of 510,000 as of a 2007 U.S. Census Bureau estimate, with a growth rate since the 2000 Census of 44 percent. Economic activity in the area is diverse and includes school districts, healthcare, manufacturing, construction, and retail trade as the primary employers. According to the Bureau of Labor Statistics, unemployment in September 2009 was 8.3 percent.

The AA has mostly upper- and middle-income families. Approximately 17 percent of the families are considered low-income, 14 percent are moderate-income, and the remaining 69 percent are middle-income or upper-income. According to U.S. Census Bureau information, there are 25,753 owner occupied residences and 8,156 rental occupied residences. The weighted average median value of a single family residence was \$109,046, and the weighted average monthly gross rent was \$559. The weighted average of the updated median family income is \$63,800 for 2009.

Banking competition is intense. Major competitors in the area include branches of: Capital One, N.A., Wells Fargo Bank, N.A., JP Morgan Chase Bank, N.A., Citibank, N.A., and GE Capital Financial, Inc.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable. The bank's quarterly loan-to-deposit ratio since the prior examination has averaged 60.10 percent. We compared this ratio to a peer group of eight banks located in the three counties of Colorado, Wharton, and Fort Bend. The average quarterly ratios of this peer group ranged from a low of 15.48 percent to a high of 79.92 percent. The banks with ratios greater than this bank have branches in MSAs and greater opportunities for lending.

Lending in Assessment Area

A substantial majority of loans were originated in the two AAs. Based on reliable census tract information, we used bank-provided information on all business, farm, and consumer loans originated from January 1, 2007 to January 8, 2010. As shown in Table 1 below, 88 percent of the number of loans and 85 percent of the dollar amount of loans were originated in the AA.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business	216	84.71	39	15.29	255	25,979	77.39	7,589	22.61	33,568
Farm	183	92.89	14	7.11	197	24,033	94.97	1,272	5.03	25,305
Consumer	296	88.10	40	11.90	336	2,707	83.50	535	16.50	3,242
Totals	695	88.20	93	11.80	788	52,719	84.87	9,396	15.13	62,115

Source: Data collected by bank.

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

Overall, the bank's loan originations reflect a reasonable distribution among households and families of various income levels, including low- and moderate-income and businesses of different sizes within its AA. To complete this analysis, we reviewed a sample of business, farm, and consumer loans originated in the AA.

Small Business Loans

Overall, the distribution of small business loans reflects reasonable penetration to businesses of different sizes based upon an analysis of the borrowers' gross annual revenues. We compared the bank's loan originations to information about the size of businesses in the AA according to Dunn & Bradstreet information.

The bank's performance in lending to small businesses with revenues equal to or less than \$1 million in Colorado and Wharton Counties exceeds the characteristics of the AA for the number of loans. For dollar amount of loans, the bank's performance is below

the characteristics of the AA. The size of loans extended to those borrowers with revenues greater than \$1 million is significantly larger and has a significant effect on the percentage of the dollar amount of loans. The number percentage was assigned a greater weight in our evaluation. The bank's performance is shown in the following table:

Table 2A - Borrower Distribution of Loans to Businesses in Colorado and Wharton Counties				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	57.18	3.40	39.42	100%
% of Bank Loans in AA by #	77.78	22.22	0.00	100%
% of Bank Loans in AA by \$	31.70	68.30	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

In the Fort Bend AA, all sampled loans were originated to small businesses with gross annual revenues of \$1 million or less. This level of lending exceeds the characteristics of the AA according to Dunn & Bradstreet data and is excellent. The bank's performance is shown in the following table:

Table 2B - Borrower Distribution of Loans to Businesses in Fort Bend County				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.84	2.93	30.23	100%
% of Bank Loans in AA by #	100.00	0.00	0.00	100%
% of Bank Loans in AA by \$	100.00	0.00	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

Farm Loans

Overall, the distribution of small farm loans reflects reasonable penetration among farms of different sizes, particularly those with gross annual revenues of \$1 million or less. We reviewed the gross annual revenues of the sampled farm loans to determine the bank's performance and compared the performance to the characteristics of the AA according to Dunn and Bradstreet data.

In the Colorado and Wharton AA, the bank's performance is near to the characteristics of the AA for the number of loans and exceeds the characteristics of the AA for the dollar amount of loans. The bank's performance is shown in the following table:

Table 2C - Borrower Distribution of Loans to Farms in Colorado and Wharton Counties				
Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	96.51	1.75	1.75	100%
% of Bank Loans in AA by #	92.86	7.14	0.00	100%
% of Bank Loans in AA by \$	99.43	0.57	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

In the Fort Bend AA, the bank’s performance is below the characteristics of the AA. This is attributable to Fort Bend County being a relatively new lending area and the changing demographics of the county. Fort Bend is growing rapidly and farms are being replaced by residential subdivisions and the accompanying retail business growth that comes with suburban population growth. The bank’s performance is shown in the following table:

Farm Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Farms	96.34	1.83	1.83	100%
% of Bank Loans in AA by #	66.67	33.33	0.00	100%
% of Bank Loans in AA by \$	54.21	45.79	0.00	100%

Source: Loan sample; Dunn and Bradstreet data.

Consumer Loans

The level of lending to borrowers of different incomes demonstrates a reasonable penetration among borrowers of different income levels. The level of lending performance to moderate-income borrowers exceeds the characteristics of the AA. We analyzed consumer lending using borrower income compared to the percentage of households by median household income levels according to U.S Census information. The 2007 through 2009 median household income for Colorado County was \$32,602, and it was \$58,836 for Fort Bend County.

In Colorado and Wharton Counties, the bank’s performance is below the characteristics of the AA for lending to low-income households but exceeds in lending to moderate-income households. A low-income household in this AA has income up to \$16,300 annually. We considered the level of difficulty for the bank to originate loans to households with incomes at or below this level and concluded overall performance was reasonable. The bank’s performance is shown in the following table:

Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	24.22	12.90	15.03	19.35	16.72	9.68	44.03	54.84

Source: Loan sample; U.S. Census data. Income not used in credit decision in 3.23% of the loan sample.

Officers did not originate any loans to low-income borrowers in Fort Bend County. This is not a concern because of the excellent level of lending to moderate-income borrowers and the difficulty of lending to low-income borrowers. The percentage of loans by number originated to moderate-income households is more than twice the characteristics of the AA. The bank’s performance is shown in the following table:

Table 2F – Borrower Distribution of Consumer Loans in Fort Bend County								
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	18.16	0.00	14.15	33.34	16.30	11.11	51.39	44.44

Source: Loan sample; U.S. Census data. Income was not used in the credit decision in 11.11% of the loan sample.

Geographic Distribution of Loans

The overall geographic distribution of the bank’s loans is reasonable considering the demographics of both AAs. The Colorado and Wharton Counties AA has only one moderate-income CT. Of the 21 CTs in the Fort Bend County AA, the AA has one low-income CT and three moderate-income CTs. Our review included an analysis of the geographic location of all business, farm, and consumer loans originated from January 1, 2007 through January 11, 2010. Our review also included identifying loans originated in CTs designated as distressed by the Federal Financial Institutions Examining Council. Wharton County has the three census tracts of 7402.00, 7405.00, and 7406.00 that are designated as distressed based on population loss. Our review did not reveal any conspicuous gaps in lending in both AAs.

Performance in the Colorado/Wharton AA

Our analysis revealed an adequate dispersion throughout the CTs of different income levels, including the one moderate-income CT. Although the geographic distribution of all business, farm, and consumer loans in the AA were below the characteristics of the AA, we found that officers had originated three business loans in distressed middle-income CTs in Wharton County not reflected in the table below. This represents 2.88 percent of all business loans in this AA originated during the evaluation period. Overall, we concluded the geographic distribution of business loans was satisfactory. The bank’s performance is shown in the following table:

Table 3A - Geographic Distribution of Loans to Businesses in Colorado and Wharton Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% 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
Business Loans	0.00	0.00	2.44	0.55	29.17	41.99	68.39	57.46

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

Officers were unable to originate any farm loans in the one moderate-income CT in this AA. However, we found that officers had originated nine loans in the three CTs in Wharton County designated as distressed. This represents 6.08 percent of all farm loans originated in this AA during the evaluation period. As a result and considering the low percentage of farms in the one moderate-income CT, we concluded the geographic distribution of loans to farms was satisfactory. The bank’s performance is shown in the following table:

Table 3B - Geographic Distribution of Loans to Farms in Colorado and Wharton Counties								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	0.00	0.00	1.24	0.00	36.91	61.49	61.85	38.51

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

Loan originations to consumers in the one moderate-income CT in this AA were below the characteristics of the AA. However, we found that officers had originated eight loans in the three distressed CTs in Wharton County. This represents 3.25 percent of all consumer loans originated in this AA during the evaluation period. As a result and considering the low percentage of moderate-income households residing in that moderate-income tract, we concluded the geographic distribution of loans to consumers was satisfactory. The bank’s performance is shown in the following table:

Table 3C - Geographic Distribution of Consumer Loans in Colorado and Wharton Counties								
Census Tract 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	0.00	0.00	3.99	0.41	35.48	63.82	60.53	35.77

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

Performance in the Fort Bend County AA

Overall, the geographic distribution of business, farm, and consumer loans is satisfactory, especially considering that the bank does not have a branch in Fort Bend County. The nearest branch is in East Bernard in Colorado County.

The geographic distribution of loans to businesses exceeds the characteristics of the AA for loan originations in low- and moderate-income CTs and is excellent. The bank’s performance is shown in the following table:

Table 4A - Geographic Distribution of Loans to Businesses in Fort Bend County								
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
Business Loans	3.25	8.58	12.91	14.28	20.34	17.14	63.50	60.00

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

Officers did not originate any farm loans in a low- or moderate-income CT. However, the percentage of farms located within the low- or moderate-income CTs is minimal. Also, the cities of Richmond and Rosenberg, Texas are in these census tracts. Both cities are growing rapidly, and lending to businesses is the only significant opportunity in these tracts. The bank’s performance is shown in the following table:

Table 4B - Geographic Distribution of Loans to Farms in Fort Bend County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans	% of AA Farms	% of Number of Loans
Farm Loans	1.57	0.00	6.79	0.00	33.42	74.29	58.22	25.71

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

The geographic distribution of consumer loans is below the characteristics of the AA for loans originated in low- and moderate-income CTs. Officers did not originate any loans in the one low-income CT but did originate 4 percent of consumer loans in moderate-income CTs. Overall, performance is satisfactory. Several factors must be considered to fully evaluate geographic distribution performance. The most significant factor is the distance from the East Bernard branch to the Richmond Rosenberg area of approximately 15 miles. East Bernard is a small town with limited retail businesses, and it is unlikely that consumers would drive the distance for banking needs considering the intense level of banking competition in Fort Bend County. The bank’s performance is shown in the following table:

Table 4C - Geographic Distribution of Consumer Loans in Fort Bend County								
Census Tract 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	3.03	0.00	16.14	4.00	28.24	66.00	52.59	30.00

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

Community Development Loans

We identified two community development loans during our examination. The first was to an organization providing community services for youth and family programs. The purpose of the loan was to provide a line of credit for operating expenses. Since 2004, officers have originated a new loan every year. In 2004, the loan was \$75 thousand, and has been reduced to \$25 thousand for the past three years. Also, we identified a loan that was originated in the prior evaluation period but renewed for \$30 thousand during this evaluation period. The loan funded an eight-unit apartment complex with below market rents that provides affordable housing for its residents.

Responses to Complaints

The bank did not receive any complaints related to CRA during the 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.