



SMALL BANK

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

PUBLIC DISCLOSURE

August 21, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The State National Bank of Groom
Charter Number 12742**

**99 Broadway
Groom, TX 79039**

**Comptroller of the Currency
Lubbock Field Office
5225 South Loop 289 Suite 108
Lubbock, TX 79424**

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.

State National Bank of Groom (SNBG) has a satisfactory record of meeting the credit needs of the borrowers in their assessment area. This conclusion is based on the following findings:

- SNBG's loan-to-deposit ratio is more than reasonable when compared to other similarly situated financial institutions in or near the assessment area AA. The loan-to-deposit ratio averaged 70.68 percent during this evaluation period.
- A substantial majority of the loans sampled, 91.1 percent of the number and 93.3 percent of the dollar volume, were to borrowers within the AA.
- SNBG's distribution of loans to businesses and farms with gross revenues of less than \$1 million is reasonable.
- The geographic distribution of loans within the AA is reasonable given SNBG's business strategy and location.

DESCRIPTION OF INSTITUTION

SNBG is a small community bank with its main office in Groom, Texas, approximately 40 miles east of Amarillo, Texas. In 2003, the bank opened a branch location in Amarillo, Texas to meet the needs of their customers who live or operate businesses in Potter and Randall Counties. The bank is wholly owned by Groom Bancshares, a one-bank holding company located in Groom, Texas.

The bank is primarily an agricultural lender at the Groom location. The Amarillo location mainly extends small commercial credits. As of June 30, 2007, SNBG has total assets of \$35.1 million; gross loans representing 67.4 percent of this amount. The bank's primary loan products are farms loans and business loans.

LOAN PORTFOLIO COMPOSITION		
	\$ (000's)	% of Portfolio
Farm Loans	11,318	41.81%
Commercial Loans	8,176	30.20%
Commercial Real Estate Loans	4,820	17.81%
Farm Real Estate Loans	1,348	4.98%
Consumer Loans	694	2.56%
Residential Real Estate Loans	714	2.64%
Total	27,070	100.00%

Per bank trial balance as of August 23, 2007.

The majority of the banks loans are for commercial business or farm purposes. They also make a large volume of small consumer credits for individuals in their AA. Based on SNBGs report of small consumer loans made from June, 2006 through June, 2007, we observed that there were 96

small loans totaling \$118.7 thousand for consumer purposes. The average loan size was \$1,236. This volume and average loan size reflects management’s desire to provide small consumer loans while meeting the other credit needs of their area.

SNBG provides standard banking services including various deposit and loan products. They also provide after hours banking services through debit cards. Additional details about the services, hours, and fees are provided in the bank’s Public File. Based on its financial condition, the local economy, product offerings, and competition, SNBG has the ability to meet the various credit needs of the community. The bank was rated “Satisfactory” at the last CRA examination on April 22, 2002.

SNBG’s business strategy is to provide outstanding banking services to customers while increasing the long-term value of the owner’s investment. No legal impediments or other factors hinder SNBG’s ability to provide credit in its AA. As of June 30, 2007, SNBG’s tier 1 capital equaled \$2.62 million representing 7.34 percent of adjusted average assets. The bank is financially capable of meeting almost any request for credit, subject to certain legal restrictions applicable to all national banks.

DESCRIPTION OF THE SIX COUNTIES ASSESSMENT AREA

The Board of SNBG has designated six counties as its Assessment Area (AA). These counties are Armstrong, Carson, Gray, Hutchinson, Potter, and Randall. The AA includes all counties which are contiguous and the cities where the bank has its two offices. No low- or moderate-income tracts were arbitrarily excluded. As noted in the examination conclusion, the majority of the banks loans are made within these six counties. SNBG reported \$29.7 million in deposits in the AA, which is 0.73 percent of deposits in the AA. There are twenty other financial institutions in the AA, some of which are much larger in size and have extensive branching networks.

Demographic and Economic Characteristics of Six Counties Assessment Area	
<i>Population</i>	
Number of Families	71,996
Number of Households	103,360
<i>Geographies</i>	
Number of Census Tracts	76
% Low-Income Census Tracts	3.95%
% Moderate-Income Census Tracts	28.95%
% Middle-Income Census Tracts	40.79%
% Upper-Income Census Tracts	26.32%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	42,367
2006 HUD-Adjusted MFI	50,197
<i>Economic Indicators</i>	
Unemployment Rate	2.62
2006 Median Housing Value	68,937
% of Households Below Poverty Level	13.45%

Based on 2000 Census Data and Updated HUD Income Data

Based on the data from the 2000 Census Report, the AA has 113,032 total housing units, 62.2 percent of which are owner-occupied units. Census data reports 33,035 or 29.2 percent of the units are occupied rental units, and 8.6 percent are vacant. By our observation, the city of Groom has very few vacant units. The Groom Economic Development Corporation has provided lots on which individuals may build homes or place mobile homes. The result has been to bring additional families to Groom.

Four of the counties, Armstrong, Carson, Gray, and Hutchinson, are primarily agricultural areas. There are other industries and businesses located in these counties, including Key Energy, Cabot Corporation, ConocoPhillips, Hoecht Celanese, and other oil field related businesses. There are large feed yards located in several of the communities within the AA. During recent years, cotton has become a major crop, and gins have been built to meet the needs for receiving the local harvest. The local communities have a number of small financial institutions. In addition, some have branches of larger banks, including both local and national institutions.

Potter and Randall Counties are much more diversified, supporting agricultural industries, but also substantial development of other industries including trucking, oil and gas, and a large medical community. Amarillo is the largest city in both counties, and it is the county seat of Potter County. Canyon, a smaller community to the south of Amarillo, is the county seat of Randall County. The level of competition for loans and deposits is much greater in Amarillo because of the large number of institutions that operate there. There are 17 commercial banks and savings and loans operating within the two counties. In addition, there are numerous credit unions and finance companies operating in this portion of the AA. This makes it somewhat more difficult for SNBG to be a major source for lending in the area, but they have been able to meet the needs of a number of their customers who live, work, or own businesses in the Potter-Randall county area. Management's strategy for SNBG is to continue to grow the bank's loan volume in both locations at a rate of 10 to 15 percent per year by continuing to make small commercial and agricultural loans.

Based on prior community contacts, most credit needs in the AA are being met. Two community contacts in Amarillo noted that special housing programs available often have conditions that make it difficult for low- or moderate-income families to maintain their homes when there is no funding available for repairs once they have purchased the home. In Gray County, the contact noted a need for more affordable housing. The community contact in Groom noted that the financial institutions are meeting the primary needs for credit in that area, although it may be difficult for builders to obtain construction financing unless the home is pre-sold. SNBG is not primarily a residential real estate lender, but the community contacts indicated the need for financing homes is being met through other financial institutions.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

SNBG is meeting the credit needs of the AA in a satisfactory manner. We reviewed the bank's lending performance by testing a sample of farm purpose loans and a sample of business purpose loans as these were found to be the bank's primary loan products by number and by volume of loans originated. Our overall conclusion was reached by reviewing the following elements of the bank's practices:

- The average loan-to-deposit ratio since the last CRA examination;

- SNBGs level of lending inside the AA;
- Lending to farms and businesses of different revenue levels;
- Geographic distribution of loans; and
- Response to complaints.

Details regarding the bank’s performance under each of the above criterion are described in the following comments.

Loan-to-Deposit Ratio

SNBG’s quarterly average loan-to-deposit ratio is more than reasonable in light of the size and locations of the bank offices. They compare very well with other similarly situated banks. The SNBG June 30, 2007 ratio of 52.6 percent and the average loan-to-deposit ratio of 70.68 percent compare reasonably with the 91.83 percent average of FNB Borger and are significantly above other similar banks. Please note no ranking is intended or implied.

LOAN-TO-DEPOSIT RATIO		
Institution	Total Assets \$ (000’s) (As of 6/30/07)	Average Loan-to Deposit Ratio
First National Bank of Borger	39,786	91.83
Bank of Commerce, McLean	13,553	31.93
First State Bank of Miami	27,605	56.17
Memphis State Bank	34,258	22.25
The State National Bank of Groom	35,102	70.68

- Source: Institution Reports of Condition from January 2002 to June 2007.

Lending in Assessment Area

A substantial majority of the loans sampled were to borrowers within the AA. In order to assess performance for this criteria, we reviewed 24 farm loans and 23 business loans originated between 2005 and August 2007. Our analysis determined that 91.1 percent of the number of loans and 93.9 percent of the dollar amount of loans in the sample were extended within the bank’s AA. The breakdown by loan category is illustrated in the following table.

Lending in the Assessment Area								
	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Farm	20	83.33	1,822	85.42	4	16.67	311	14.58
Business	23	100.00	2,954	100.00	0	0	0	0
Total Reviewed	43	91.11	4,776	93.89	4	8.89	311	6.11

Source: Sample of loans used for CRA performance analysis

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

SNBG’s loan portfolio reflects a reasonable distribution among farms and businesses of different sizes within their AA. To perform our analysis, we reviewed income information of 20 farms and 23 businesses within the AA.

Farm Loans – Based on 2007 Business Demographic Data, there are 923 farms within the bank’s AA. Of this number, 93 percent reported revenues less than or equal to \$1 million. Of the loans in the farm purpose sample, 85 percent were to farms reporting annual revenues below \$1 million. This level is near the level of small farms in the AA by number of loans. It is lower by the dollar amount of loans. The following chart reflects the results of our selected sample of farm loans originated in the AA.

Borrower Distribution of Loans to Farms in the Six Counties Assessment Area.			
Farm Revenues	Unreported	≤\$1,000,000	>\$1,000,000
% of AA Farms	1.84	93.17	4.98
% of Bank Loans in AA by #	10.00	85.00	5.00
% of Bank Loans in AA by \$	1.38	75.64	22.98

Source: Loan Sample; Dunn and Bradstreet data

Business Loans – Based on 2007 Business Demographic Data, there are 20,018 non-farm businesses within the bank’s AA. Of this number, 66 percent reported revenues less than or equal to \$1 million. Of the loans in the business purpose sample, 48 percent by the number and 50 percent by the dollar amount were to businesses reporting annual revenues below \$1 million. This level is somewhat lower than the level of small businesses in the AA. The following chart reflects the results of our selected sample of farm loans originated in the AA. Our analysis reflects a reasonable penetration of business loans

Borrower Distribution of Loans to Businesses in the Six Counties Assessment Area.			
Business Revenues	Unreported	≤\$1,000,000	>\$1,000,000
% of AA Businesses	29.56	66.2	4.24
% of Bank Loans in AA by #	34.78	47.83	17.39
% of Bank Loans in AA by \$	5.08	50.45	44.47

Source: Loan Sample; Dunn and Bradstreet data .

We performed further analysis to support our assessment of a reasonable distribution of farm and business loans of different sizes in the AA. The charts below reflect the bank’s lending for small farms and businesses using the size of the loan as a proxy for revenues, since many of the loans in our samples did not have any income or revenue reported. The charts reflect a reasonable level of lending to small farms and businesses using this criteria.

Borrower Distribution of Loans to Farms by Loan Size in the Six Counties Assessment Area.

Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	16	72.73%	\$380,762	22.66%
\$100,001 - \$250,000	4	18.18%	\$605,450	36.03%
\$250,001 - \$500,000	2	9.09%	\$694,244	41.31%
Over \$500,000	0	0	0	0

Based on farm loans in our sample

Borrower Distribution of Loans to Businesses by Loan Size in the Six counties Assessment Area				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	17	73.91%	481,870	16.31%
\$100,001 - \$250,000	3	13.04%	546,000	18.49%
\$250,001 - \$500,000	1	4.35%	281,000	9.51%
\$500,001 - \$1,000,000	2	8.70%	1,645,000	55.69%
Over \$1,000,000	0	0	0	0

Based on business loans in our sample.

Geographic Distribution of Loans

SNBG's geographic distribution of loans within the census tracts is reasonable given the bank's business strategy and locations. We reviewed samples of both farm and business purpose loans to determine the bank's performance for lending across different geographies as defined by the census data.

Farm Loans - The performance in the low and moderate income tracts is reasonable. The bank had only one agricultural purpose loan in moderate-income tracts. This is primarily because there were very few farms in low- or moderate income tracts, based on the demographic information we obtained. The majority of low- or moderate income tracts are located inside cities where farms are not usually located. Less than 140 of 923, or 15 percent, of total farms were located in low- or moderate income tracts. However, 15 percent of the sampled loans were to borrowers in the distressed middle-income tracts in Gray and Hutchinson counties. The following chart reflects the results of our selected sample of farm loans originated in SNBG's AA.

Geographic Distribution of Loans to Farms in the Six Counties Assessment Area.								
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	4.98	0	9.32	5.00	57.75	85.00	27.95	10.00

Source: Loan sample; U.S. Census Data

Business Loans - We observed that the bank's lending within low- or moderate-income tracts for business purpose loans is somewhat less than the number of businesses that are located in low- or moderate-income tracts. A low number of loans in our business sample were located in moderate-income areas. There are few moderate-income tracts in the AA other than those in Potter and Randall County where the level of competition for loans is much higher, including larger banks that can provide larger loans to commercial businesses. The only low-income tracts are in Potter County, primarily located along the railroad routes of the Rock Island and Pacific and the Fort Worth and Denver railroads. There were no commercial loans made by the bank in low-income tracts, but only 8 percent of commercial businesses are reported in these tracts. However, 13 percent of the sampled loans were to borrowers in the distressed middle-income tracts in Gray and Hutchinson counties. Lending in distressed middle-income tracts supports the economy of those areas.

Geographic Distribution of Loans to Businesses in the Six Counties Assessment Area.								
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
Commercial	8.10	0	25.64	13.05	40.05	69.56	26.21	17.39

Source: Loan Sample; U.S. Census Data

Responses to Complaints

There have been no complaints related to the bank’s CRA performance. The bank does have procedures in place to promptly record and respond to complaints.

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.