



SMALL BANK

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

PUBLIC DISCLOSURE

July 9, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Gladewater National Bank
Charter Number: 17290**

**678 North Main Street
Gladewater, Texas 75647**

**Office of the Comptroller of the Currency
Longview Field Office
1800 West Loop 281, Suite 306
Longview, TX 75604**

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.

Gladewater National Bank has a satisfactory record of meeting community credit needs. This rating is based on the following:

- ◆ The bank's loan-to-deposit ratio is reasonable based on the bank's performance context and lending opportunities within its assessment areas.
- ◆ A majority of the bank's loans are extended within the bank's assessment area.
- ◆ Credit activity is reasonably distributed to borrowers of different income levels and businesses of different sizes within its assessment areas.

SCOPE OF EXAMINATION

This Performance Evaluation is an assessment of the record of Gladewater National Bank in meeting the credit needs of the communities in which it operates. The bank was evaluated under the Small Bank performance criteria. Conclusions regarding the bank's lending performance area based on residential mortgage, consumer, and small business loans from December 21, 2001 through July 9, 2007.

DESCRIPTION OF INSTITUTION

Gladewater National Bank (GNB) is a \$24 million bank with two office locations. The bank is wholly owned by East Texas Financial Corporation, Inc. East Texas Financial Corporation, Inc. also owns Citizens State Bank located in Kilgore, Texas and Spring Hill State Bank located in Longview, Texas. The bank's main office is located at 678 North Main Street, Gladewater, Texas. The bank also operates one motor branch in Gladewater and one full-service branch in Hawkins, Texas. They also have one automated teller machine which is located at the bank's main office. Since the prior CRA examination, the bank has neither opened nor closed any branch offices. The bank offers a full-range of loan and deposit services. As of March 31, 2007, loans totaled \$15.2 million and represents 62% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio as of March 31, 2007.

LOAN CATEGORERY	\$ (000)	%
Commercial Loans	\$3,985	26.23%
Real Estate Loans	\$9,576	63.02%
Consumer Loans	\$1,513	9.96%
Agricultural Loans	\$120	0.79%
Total	\$15,194	100.00%

There are no legal impediments or other factors that inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA Examination dated December 20, 2001.

DESCRIPTION OF ASSESSMENT AREAS

The Board has designated specific census tracts located in Gregg, Upshur, and Wood Counties as its assessment area. While these census tracts are contiguous, census tract 9506 in Wood County was assessed separately because it is not in a Metropolitan Statistical Area (MSA). Census tracts 102 and 104 in Gregg County and census tracts 9503, 9504, 9505, 9506, and 9507 in Upshur County are part of the Longview MSA and were assessed together. These assessment areas meet the requirements of the Community Reinvestment Act and do not arbitrarily exclude low and moderate-income geographies. The following is a description of the two assessment areas.

Gregg and Upshur Counties assessment area

The contiguous census tracts 9503, 9504, 9505, 9506, and 9507 in Upshur County and 102 and 104 in Gregg County are located in the Longview MSA and serve as the assessment area for the Main office and Motor bank located in Gladewater. The assessment area includes no low or moderate-income tracts and 7 middle-income tracts. The distribution of families by income level, regardless of census tract location, consists of the following: 20.86% are low income, 19.85% are moderate income, 23.27% are middle income, and 36.03% are upper income. Major employers in this assessment area include Texas Die Casting and Strategic Fulfillment. Competition within the assessment area is strong with numerous banks, credit unions, and savings associations in the Longview MSA. The local economy is considered stable with an unemployment rate of 2.58%. Contacts with local business organizations in Gladewater and the surrounding area revealed the primary community credit needs for the assessment area are residential mortgages and small business loans. The following table provides a description of the assessment area based on 2000 census data and 2006 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	10,917
Number of Households	14,739
<i>Geographies</i>	
Number of Census Tracts/BNA	7
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100.00%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$40,970
2006 HUD-Adjusted MFI	\$48,500
<i>Economic Indicators</i>	
Unemployment Rate	2.58%
2000 Median Housing Value	\$59,582
% of Households Below Poverty Level	14.78%

Wood County assessment area

Census tract 9506 is located in the southeastern part of Wood County. This census tract is middle income. This tract includes the city of Hawkins and the community of Holly Lake Ranch and serves as the assessment area for the bank's branch located in the Holly Lake Ranch community. This branch has total loans of \$769 thousand and total deposits of \$1 million. The distribution of families by income level, regardless of census tract location, consists of the following: 12.46% are low income, 13.57% are moderate income, 26.47% are middle income, and 47.50% are upper income. Major employers in this assessment area are Ozarka Bottle water and Brookshire Grocery. Competition is strong with branches of other banks in the area. The local economy is considered stable with an unemployment rate of 8.22%. Contacts with a local business organization in Wood County revealed the primary community credit needs for the assessment area are residential mortgages. The following table provides a description of the assessment area based on 2000 census data and 2006 HUD information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	2,078
Number of Households	2,775
<i>Geographies</i>	
Number of Census Tracts/BNA	1
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100.00%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2006 HUD-Adjusted MFI	\$43,100
<i>Economic Indicators</i>	
Unemployment Rate	8.22%
2000 Median Housing Value	\$64,700
% of Households Below Poverty Level	9.62%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall lending performance is satisfactory. The bank's loan-to-deposit ratio is reasonable and a majority of loans are within the bank's assessment areas. Additionally, the distribution of loans demonstrates a reasonable penetration among borrowers of different income levels and businesses of different sizes.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of Gladewater National Bank is reasonable given the bank's size, financial condition and assessment area credit needs. The bank's loan-to-deposit ratio is

comparable to other banks headquartered in the bank's assessment area. The bank's quarterly average loan-to-deposit ratio is 77.59% since the prior CRA examination in December 2001. The average loan-to-deposit ratio of banks within the assessment area, regardless of size, for the same time period is 65.63%.

INSTITUTION	Assets (000s) (as of 3/31/07)	Average LTD Ratio
The First National Bank of Mineola	\$29,285	27.60%
Gilmer National Bank	\$184,308	54.10%
Wood County National bank of Quitman	\$61,085	54.23%
Citizens Bank of Kilgore	\$246,275	54.85%
The First National Bank of Gilmer	\$177,302	59.96%
Kilgore National Bank	\$61,328	60.71%
City National Bank of Kilgore	\$164,300	68.87%
Bank Texas, N.A. of Quitman	\$155,199	71.88%
Gladewater National Bank	\$24,462	77.59%
White Oak State Bank	\$53,713	78.77%
Texas Bank and Trust Company	\$888,704	84.75%
Spring Hill State Bank	\$118,579	94.27%

Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. Major lending products include residential, consumer, and commercial loans. Our sample included these loan types that were originated since December 20, 2001. The sample reflected approximately 73% of the number of loans and 50% of the dollar amount of loans were extended in the banks assessment area. The breakdown by loan category is illustrated in the following table:

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
1-4 Family	22	73.33	1,127	64.29	8	26.67	626	35.71
Consumer	30	75.00	279	75.00	10	25.00	93	25.00
Business	23	69.70	683	33.93	10	30.30	1,330	66.07
Totals	75	72.82	2,089	50.48	28	27.18	2,049	49.52

Source: Loan sample.

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

Gregg and Upshur Counties

The distribution of loans within this assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes.

The distribution of home purchase loans reflects a reasonable penetration among borrowers of different income. The distribution of home purchase loans to low and moderate-income borrowers generally approximates the percentage of low and moderate-income families in the assessment area.

RESIDENTIAL REAL ESTATE LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	20.86		19.85		23.27		36.03	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	20.00	15.50	15.00	16.65	20.00	23.71	45.00	44.14

Source: Loan sample; U.S. Census data.

The distribution of consumer loans reflects an excellent penetration among borrowers of different income levels. The distribution of consumer loans to low and moderate-income borrowers exceeds the percentage of low and moderate income households in the assessment area.

CONSUMER LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	24.70		15.97		19.46		39.87	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	45.00	20.77	20.00	26.42	30.00	51.67	5.00	1.15

Source: Loan sample; U.S. Census data.

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on Dun and Bradstreet data, there are 3,149 businesses in the assessment area; however, revenue information was not reported for approximately 42% of the businesses. As a result, the percentage of businesses by income level may not accurately reflect a true percentage of the businesses in each income category. Our sample of commercial loans inside the

assessment area revealed a substantial majority of the bank's commercial loans were to businesses with revenues less than \$1 million.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses	54.68	3.59	41.73	100.00
% of Bank Loans in AA #	90.00	10.00	0.00	100.00
% of Bank Loans in AA \$	85.28	14.72	0.00	100.00

Source data: Loan sample; Dun and Bradstreet data.

Wood County

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. Our sample included all loans originated at the Holly Lake branch during the assessment period. Our sample of loans inside the assessment area included two residential loans totaling \$298 thousand, ten consumer loans totaling \$77 thousand, and three commercial loans totaling \$21 thousand. There is no penetration for home purchase loans to low and moderate-income families. Borrowing for home purchases by low-income individuals is limited due to the low level of affordable housing stock available in the area. Additionally, unemployment in this assessment area is extremely high at 8.22% and there are a large percentage of retirees at 28.90%. Although the branch in this assessment area has been in operation for approximately seven years, it has not produced a significant volume of loans. The low loan volume has been attributed to the competition from both Bank Texas (Quitman) and Citizens National (Sulphur Springs) who have branches in the Holly Lake community and the lack of a full time lending officer at the branch.

RESIDENTIAL REAL ESTATE LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
% of AA Families	0	0	0	0	0	0	100.00	100.00

Source data: Loan sample; U.S. Census data.

The distribution of consumer loans reflects a reasonable penetration among borrowers of different income levels. The distribution of consumer loans to low-income borrowers generally approximates the percentage of low income- households in the assessment area. The distribution of consumer loans to moderate-income borrowers exceeds the percentage of moderate-income households in the assessment area.

CONSUMER LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	15.28		15.28		18.92		50.52	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	10.00	0.69	20.00	5.94	30.00	33.94	40.00	59.43

Source: Loan sample; U.S. Census data.

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on Dun and Bradstreet data, there are 441 businesses in the assessment area; however, revenue information was not reported for approximately 35% of the businesses. As a result, the percentage of businesses by income level may not accurately reflect a true percentage of the businesses in each income category. Our sample of commercial loans inside the assessment area revealed a substantial majority of the bank's commercial loans were to businesses with revenues less than \$1 million.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES				
Business Revenues	≤\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses	61.91	3.17	34.92	100.00
% of Bank Loans in AA #	100.00	0	0.00	100.00
% of Bank Loans in AA \$	100.00	0	0.00	100.00

Source: Loan Sample; Dun and Bradstreet data.

Geographic Distribution of Loans

A geographic analysis of lending activity in either assessment area was not performed. As there are no low or moderate-income geographies located in these assessment areas, an analysis would not be meaningful.

Responses to Complaints

Gladewater National Bank has not received any complaints or public comments regarding CRA performance 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.