



SMALL BANK

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

PUBLIC DISCLOSURE

February 27, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Yoakum National Bank
Charter Number 8694**

**301 W. Grand Avenue
Yoakum, TX 77995**

**Comptroller of the Currency
San Antonio South
10101 Reunion Place Boulevard Suite 402
San Antonio, TX 78216**

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: Outstanding

Yoakum National Bank (YNB) reflects outstanding lending performance in its efforts to meet the credit needs of its community, including low- and moderate-income individuals and geographies within its assessment area (AA). Factors that support the overall rating include:

- The average quarterly loan-to-deposit ratio of 52.26 percent is more than reasonable given the asset size and overall financial condition of YNB. The loan-to-deposit ratio exceeds the average loan-to-deposit ratio of similarly situated financial institutions in the AA.
- A substantial majority of loans originated within the AA. Our sample reflected that 89 percent of the number and 94 percent of the dollar volume originated within the AA.
- The distribution of borrowers reflects strong penetration among individuals of different income levels and businesses and farms of different sizes.
- The geographic distribution of loans reflects reasonable dispersal throughout the AA.

DESCRIPTION OF INSTITUTION

YNB is an independently owned community bank with total assets of \$114 million as of December 31, 2006. It has one location in Yoakum, Texas. YNB is a wholly owned subsidiary of Yoakum National Bancshares, Inc., a one-bank holding company. The bank is the only subsidiary of the holding company. Competition comes mainly from the local state bank with several other community bank branches and regional bank branches located in the area. YNB offers products and services that accommodate both commercial and retail segments within its AA. The following table gives a detailed breakdown of the YNB loan portfolio.

Loan Category	\$ (000's)	Percentage
Residential Real Estate Loans	21,672	38.96
Agricultural Loans	10,979	19.74
Consumer Loans	10,763	19.35
Commercial Real Estate Loans	6,774	12.18
Commercial Loans	5,072	9.12
Multifamily Loans	364	0.65
Total	\$55,624	100.00%

YNB provides lobby and drive-through services during reasonable hours from Monday through Friday. There are two automated teller machines conveniently located in the city of Yoakum that allow customers to obtain cash, request account balance information, and transfer funds between accounts. YNB also offers 24-hour telephone banking services. Based on its financial condition, the local economy, product offerings, competition, and prior performance, YNB has the ability to meet the various credit needs in its community. The bank was rated "Satisfactory" at the last CRA examination on August 12, 2002. No legal impediments or other factors hinder the ability of YNB to provide credit in its AA.

DESCRIPTION OF YNB's Assessment Area

YNB designated all of Dewitt County and Lavaca County as its AA. The AA includes the cities and communities of Yoakum, Cuero, Shiner, and Hallettsville. It includes eleven census tracts with ten tracts designated middle-income and one tract designated moderate-income. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

Based on 2000 Census data, the AA population totals 39 thousand. It has 18 thousand housing units with 63 percent owner occupied, 18 percent renter occupied, and 19 percent vacant. Major employers in the city of Yoakum include leather goods businesses, a meat packing plant, and health care services. The surrounding areas are tied more closely to small business and farm activity.

To gather current information on the nature of the community and potential lending opportunities within the AA, we contacted a local government official during this examination. We also reviewed summaries of community contacts conducted for three other banks in the AA. The contacts indicated that small business loans, home improvement loans, and consumer loans were credit needs in the community. The contacts agreed that generally banks were meeting the financial needs of the community.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	10,574
Number of Households	14,894
Number of Owner Occupied Household Units / % of Total Household Units	11,536 63 %
<i>Geographies</i>	
Number of Census Tracts/BNA	11
% Low-Income Census Tracts/BNA	0 %
% Moderate-Income Census Tracts/BNA	9.09 %
% Middle-Income Census Tracts/BNA	90.91 %
% 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	1.82 %
2006 Median Housing Value	\$ 56,169
% Of Households Below Poverty Level	17 %

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

YNB demonstrated strong performance in meeting the credit needs of its AA. We focused our review on the primary lending products of the bank: residential loans, small business loans, consumer loans, and small farms loans. We selected a sample of loans to determine the extent of lending within the AA, the distribution of loans by borrower income level, and the distribution of loans by geography. We based our findings for the following factors on that sample.

Loan-to-Deposit Ratio

YNB's loan-to-deposit (LTD) ratio exceeds the standard for satisfactory performance. As shown in the following table, the average quarterly LTD ratio over the past 16 quarters compares favorably to the averages reported by the other similarly situated financial institutions located in the AA. Several branches of other banks and federal savings institutions are located in the AA; however, financial information and lending ratios are not published.

INSTITUTION	TOTAL ASSETS (000's) 12/31/06	AVERAGE LTD RATIO
Peoples SB of Hallettsville	\$156,392	24.32%
First National Bank of Shiner	\$101,178	39.01%
First SB of Yoakum	\$94,517	50.17%
Yoakum National Bank	\$113,928	52.26%

Lending in Assessment Area

YNB exceeds the standards for satisfactory performance with a substantial majority of loans originating in the AA. We reviewed a sample of residential, consumer, small business, and agricultural loans that originated since the previous evaluation of August 2, 2002. The following table reflects the distribution of loans, by number and dollar volume, in and out of the AA.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	18	90.00%	\$ 749	81.90%	2	10.00%	\$ 166	18.10%
Small Business	19	95.00%	\$2,115	98.71%	1	5.00%	\$28	1.29%
Consumer	17	85.00%	\$259	93.98%	3	15.00%	\$17	6.02%
Agriculture	17	85.00%	\$465	92.85%	3	15.00%	\$36	7.15%
Total Reviewed	71	88.75%	\$3,588	93.60%	9	11.25%	\$247	6.40%

Source: sample of loans.

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

Overall, YNB demonstrates strong distribution of loans to borrowers of different incomes and businesses and farms of different sizes. We selected a sample of loans in the AA to evaluate performance for consumer loans, residential loans, small business loans, and small farm loans. The following narratives and tables document our findings.

Our analysis of residential lending activity reflected percentages lower than those reported in the demographic data for low-income families. Households below the poverty level represent seventeen percent of the total households in the AA. The level of income based on the 2006 HUD-adjusted median family income for this household segment is \$21,550. The low level could inhibit potential borrowers from qualifying for residential loans, since the 2006 median

housing value is \$56,179. Residential lending activity to moderate-income borrowers exceeds the demographic data for moderate-income families.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21.94 %		18.45 %		20.88 %		38.73 %	
	% of Number	% of Amount						
Total	10.00%	6.54%	25.00%	17.82%	15.00%	10.14%	50.00%	65.50%

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

Consumer lending activity reflected a strong distribution of loans to borrowers with low- and moderate-income levels. As shown in the following table, 75 percent of the number of loans in our sample originated to borrowers with low- and moderate-income levels. The percentage compares favorably to the 42 percent reported in demographic data for low- and moderate-income households.

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	26.22 %		16.04 %		18.88 %		38.86 %	
	% of Number	% of Amount						
Total	55.00%	32.74%	20.00%	33.10%	15.00%	16.65%	10.00%	17.71%

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

YNB demonstrated a strong distribution of small loans to businesses and small loans to farms. In making the comparison, we noted that 42 percent of the businesses and 3 percent of the farms in the AA did not report revenue information. However, the businesses that do not report revenue generally meet the small business definition of annual revenue less than \$1 million. The following tables compare the loan sample to the percentage of businesses in the AA.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *	55.09 %	3.24 %
% of Bank Loans in AA #	90.00 %	10.00 %
% of Bank Loans in AA \$	92.24 %	7.76 %

Source: Loan sample; Dunn and Bradstreet data. *41.67% of AA businesses did not report revenue data

BORROWER DISTRIBUTION OF SMALL LOANS FOR AGRICULTURE PURPOSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses *	94.69 %	2.45 %
% of Bank Loans in AA #	100.00%	0.00%
% of Bank Loans in AA \$	100.00%	0.00%

Source: Loan sample; Dunn and Bradstreet data. * 2.86% of AA businesses did not report revenue data

Geographic Distribution of Loans

Overall, YNB demonstrates satisfactory performance in the geographic distribution of loans. As previously noted, the AA does not include any low- or upper-income census tracts. The one moderate-income census tract is located on the perimeter of the AA which is closer to other financial institutions in the AA. In addition, the tract is closer to financial institutions in adjacent counties that are outside of YNB's AA. Therefore, it is reasonable to expect that YNB would have a very low volume of loans in the moderate-income census tract. Our sample did not include any residential, consumer, or small business loans in the moderate income tract. However, management started geocoding new residential loans about two years ago, and provided documentation indicating that they had made five residential real estate loans totaling \$327 thousand in the moderate income tract during the past two years. The following tables reflect the distribution of loans in our sample.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0.00%		10.81%		89.19%		0.00%	
	% of Number	% of Amount						
Totals	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	0.00%	0.00%

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

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0.00%		10.96%		89.04%		0.00%	
	% of Number	% of Amount						
Totals	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	0.00%	0.00%

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

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0.00%		9.05%		90.95%		0.00%	
	% of Number	% of Amount						
Totals	0.00%	0.00%	0.00%	0.00%	100.00%	100.00%	0.00%	0.00%

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

AGRICULTURE LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0.00%		6.12%		93.88%		0.00%	
	% of Number	% of Amount						
Totals	0.00%	0.00%	5.00%	1.10%	95.00%	98.80%	0.00%	0.00%

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

Responses to Complaints

YNB has not received any consumer complaints related to its 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.