

PUBLIC DISCLOSURE

June 7, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Cedar Creek Bank
Certificate Number: 18853**

**601 East Cedar Creek Parkway
Seven Points, Texas 75143-8402**

Federal Deposit Insurance Corporation

**Division of Supervision and Consumer Protection
1910 Pacific Avenue, 19th Floor
Dallas, Texas 75201**

NOTE: 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.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Cedar Creek Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **June 7, 2004**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The institution received a rating of "Satisfactory" at the prior CRA evaluation of June 1, 1999.

Small bank performance factors were applied to this \$104 million bank located in Seven Points, Texas. The performance factors are: loan-to-deposit ratio, lending to businesses of different sizes and borrowers of different income, lending in the assessment area, geographic distribution of loans, and response to CRA complaints. At management's request, investments and services were not reviewed.

This evaluation was based upon the bank's originations of business loans and residential loans within the delineated assessment area. The bank's performance relative to business lending was given greater weight in the overall evaluation. All consumer complaints were satisfactorily resolved and did not impact the bank's rating. The bank's performance under each test is detailed elsewhere in this evaluation.

- The bank's average loan-to-deposit ratio of 56.36 percent demonstrates a satisfactory level of performance within the context of the bank's resources, the assessment area's needs, and in comparison to other similar institutions operating in or near the bank's assessment area.
- Relative to the demographics of the area and the products reviewed, the bank has an adequate record of extending credit to businesses of different sizes and borrowers of different income levels.
- The bank's level of lending within the delineated assessment area demonstrated that the bank has made credit available within the community. By number of loans and dollar amount, a majority of the loans were extended within the assessment area.
- Relative to the loan products reviewed, the bank reasonably distributed loans throughout its assessment area geographies.

DESCRIPTION OF INSTITUTION

Cedar Creek Bank is a financial institution headquartered in Seven Points, Texas, approximately 60 miles southeast of Dallas, Texas. In addition to three full-service offices, the bank also offers two motorbanks. The bank is wholly-owned by Cedar Creek Bancshares, Inc. The bank offers a variety of loan and deposit products, and lobby and drive-in hours are reasonable. Customers have round-the-clock access to accounts via the bank's phone banking feature, on-line banking, and three ATMs.

As of the December 31, 2003, Report of Condition, the bank had \$104 million in assets, of which \$52 million were loans. *Table 1* illustrates the distribution of the loan portfolio by loan type.

Table 1 - Loan Distribution as of 12/31/2003		
Loan Type	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	4,843	9.1
Secured by Farmland	1,159	2.2
1-4 Family Residential	12,239	23.0
Multi-Family (5 or more) Residential	609	1.1
Commercial	18,248	34.2
Total Real Estate Loans	37,098	69.6
Commercial and Industrial	10,867	20.4
Agricultural	1,531	2.9
Consumer	2,375	4.5
Other	1,390	2.6
Net Loans*	53,261	100

Source: December 31, 2003 Report of Condition

** Totals may not add to 100 percent due to rounding.*

Since the last CRA evaluation, assets have increased 5 percent and loans have grown about 12 percent. There are no financial impediments or legal or statutory constraints that would prevent the bank from meeting the credit needs of the communities within the assessment area.

DESCRIPTION OF ASSESSMENT AREA

Cedar Creek Bank has delineated all of Navarro County and parts of Henderson, Kaufman, and Van Zandt counties as its assessment area. Henderson County is the bank's home county. Based on the 2000 Census, the two Kaufman County tracts lie within the Dallas-Fort Worth metropolitan statistical area (MSA) and all other tracts are in non-MSA areas. The assessment area contains twenty-one census tracts, all of which are classified as middle-income.

The 2003 business geodemographic data compiled by Dun & Bradstreet indicates that services and retail trade are the primary industries in the assessment area. Seventy-seven percent of the businesses are quite small, with less than twenty employees. Of the 3,836 businesses that reported revenue information to Dun & Bradstreet, 95 percent generate less than \$1 million in revenues annually. The largest revenue category is businesses with gross income of less than \$50,000, which is nearly 30 percent of the revenue reporters. The Bureau of Labor Statistics reported that Henderson and Navarro counties experienced negative employment growth of -1.6 percent in 2003. The Administrative Office of U.S. Courts reported that Henderson County experienced personal bankruptcy filings at a higher rate than the overall state of Texas for the last six years and ranked 13th out of 254 counties in 2003.

Cedar Creek Lake, located in Henderson County, is a major tourism and recreation area with Gun Barrel City serving as the hub of the lakeside areas. A contact in the local community described the economy of Seven Points, Gun Barrel City, and the other cities around the lake as very good, particularly the real estate market. According to the contact, Cedar Creek Lake is the seventh most popular lake area in the country, which is reflected in the continued growth of the economy and population. Many of the residents are retirees, but a number also live locally and commute to the Dallas-Fort Worth area for employment.

In the opinion of the contact, the lakeside areas would benefit from a housing authority for low- and moderate-income persons. With regard to specific credit needs, banks are reluctant to finance the re-sale of owner occupied mobile homes located in a number of mobile home subdivisions in the area. Most of these mobile homes are owned by low- and moderate-income persons. The contact further stated that a junior college would be an asset to the community because the area has one of the highest rates of persons who graduate from high school but one of the lowest rates of persons who go on to higher education.

In the ten years between the 1990 Census and 2000 Census, the population increased 23 percent with a corresponding increase in the number of households. The percentage of households for each income level remained relatively stable except for a modest increase in the percentage of moderate-income households. *Table 2* presents additional income and housing data for the assessment area based on the 1990 Census.

Table 2 – Income and Housing Characteristics of the Assessment Area	
*Assessment Area Population	84,262
**2002 Non-MSA Median Family Income:	\$36,100
**2002 Dallas MSA Median Family Income:	\$66,500
*Percentage of Households by Income Level of Household:	
Low-Income	31.0
Moderate-Income	17.1
Middle-Income	17.9
Upper-Income	34.0
*Percentage of Total Housing Units:	
1-4 Family Residential	70.2
Multi-Family	3.7
Mobile Home or Trailer	25.2
Other	0.8
Owner-Occupied Housing Units	59.6
Rental Housing Units	18.6
Vacant Housing Units	21.8
*Median Housing Characteristics:	
Median Age in Years	18
Median Home Value	\$48,527
Median Gross Rent	\$ 330

*Source: 1990 U.S. Census.

** Income figures are supplied by the Department of Housing and Urban Development (HUD) annually. Total percentages may not add to 100 due to rounding.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The December 31, 2003 Report of Condition showed commercial loans to be the bank's primary loan product at 54.6 percent of total loans. Records also showed that business loans increased 28 percent since the last CRA evaluation and was the loan type with the most growth. Residential loans represent 23 percent of total loans and are the second largest loan category.

Based on the foregoing, business loans and 1-4 family residential loans form the bases of this evaluation. Forty-six business loans totaling nearly \$4 million and originating inside the bank's assessment area in 2003 were used for the analysis. Thirty-six residential loans totaling \$2.6 million were originated within the assessment area according to the bank's 2002 HMDA loan application register (LAR). These loans formed the basis of the home loan analysis, which was based on 1990 Census demographic data due to the lack of current comparative performance data. The bank's performance relative to business lending will carry the greatest weight in determining the CRA rating.

The bank lists several tracts in Kaufman County, that is in the Dallas-Fort Worth MSA, as part of the bank's assessment area. Since the bank has no branches or offices in the area, and the lending is minimal, performance was not considered separately for this function.

Loan-to-Deposit Ratio

The loan-to-deposit ratio (LTD) of Cedar Creek Bank denotes satisfactory performance. The LTD is a means of measuring a bank's lending activity by comparing it to the volume of deposits held. Over the twenty quarters since the last CRA evaluation, the LTD ratio has ranged from a low of 50.96 percent to a high of 59.77 percent, with an average ratio of 56.36 percent.

Despite being located in a largely rural area, the bank faces considerable competition from a number of community banks as well as a large number of national lenders. For example, 65 large institutions originated over 800 small business loans in the bank's assessment area in 2002.

Table 3 presents a summary of LTD ratios for this institution and four similarly situated banks offering similar products and operating in or adjacent to the bank's assessment area. The table lists the banks in alphabetical order and no ranking is expressed or implied. The comparison of Cedar Creek Bank's average ratio with the peer institutions indicates that the bank's lending is in step with the market and reflects its commitment to meeting the credit needs of the assessment area.

Bank Name	City/County	Total Assets (000s)	Total Loans (000s)	Total Deposits (000s)	Loan-to-Deposit Ratio 12/31/03	Average Loan-to-Deposit Ratio
<i>Cedar Creek Bank</i>	<i>Seven Points/ Henderson</i>	104,266	52,545	92,895	56.56	56.36
Corsicana National Bank	Corsicana/ Navarro	170,407	95,803	136,407	70.23	69.84
First State Bank	Athens/ Henderson	265,059	113,586	226,851	50.07	43.17
The First National Bank of Athens	Athens/ Henderson	222,923	104,435	194,461	53.70	53.78
The First National Bank of Kemp	Kemp/ Kaufman	49,077	16,714	44,305	37.72	51.62

Source: December 31, 2003 Consolidated Reports of Condition and Income

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

Lending performance for both business and residential lending reflects satisfactory performance in granting credit to business of different sizes and borrowers of different income levels.

Business Loans

The bank's record of lending to businesses of different sizes is satisfactory and reflects its commitment to serving the credit needs of the small business owner. This conclusion was based on an evaluation of the bank's commercial lending by the gross annual revenues of the businesses and the size of the loans.

As shown in *Table 4* below, the majority of the bank's business loans – 61 percent – are extended to enterprises that generate less than \$100,000 in gross annual revenues, with the largest category earning less than \$50,000. This is consistent with the 2003 Dun & Bradstreet data that shows 55 percent of commercial respondents earn less than \$100,000 per year. The bank's business lending demonstrates a commitment to meeting the credit needs of the small business owner.

Table 4 - Distribution of Business Loans by Gross Annual Revenue				
Gross Annual Revenues (\$000s)	Number of Loans		Dollar Amount of Loans	
	#	%	\$	%
<50	17	37.0	602	15.1
50-99	11	23.9	692	17.3
100-249	9	19.6	929	23.3
250-499	3	6.5	291	7.3
500-999	1	2.2	85	2.1
>1MM	5	10.9	1,395	34.9
Total*	46	100	3,994	100

Source: Bank Records; Total percentage may not add to 100 due to rounding.

The size of the loans is another indicator of how the bank serves the credit needs of the business community. For CRA purposes, a small loan is defined under Call Report instructions as a loan of \$1 million or less. All of the bank's loans were for less than \$1 million and 78 percent were for less than \$100,000. The largest category is for loans less than \$50,000, which represents 56 percent of the business loans. Clearly, the bank is willing to satisfy the small loan needs of its business customers.

Residential Loans

The bank's record of lending to borrowers of different incomes is satisfactory. This conclusion was based on an evaluation of the bank's HMDA loans as reported on the 2002 LAR.

Borrower income levels are based on median family income, as established annually by the Department of Housing and Urban Development (HUD). For reference, the 2002 median family income for the Dallas metropolitan statistical area and the Texas non-metropolitan areas was \$66,500 and \$36,100, respectively.

Table 5 reflects the distribution of the bank's residential loans among borrowers of different income levels. For comparison, the percentage of households for each income level and aggregate lending is provided. By number of loans, the bank's level of lending to low-income borrowers is acceptable given that 61 percent of the low-income households are below the poverty level, which would effectively limit the opportunities for home lending among this income group. The bank's performance is better than aggregate in both categories; low-and moderate income tracts. By both number and dollar amount, the bank's level of lending to moderate-income borrowers exceeds the percentage of moderate-income households. Overall, the bank's distribution of home loans is reasonable and reflects a commitment to serving the housing needs of the assessment area.

Table 5 – Distribution of Residential Loans by Borrower Income Level						
Income Level	Percentage of Households by Income Level	2002 Aggregate Lending	Number of Loans		Dollars in Loans (000s)	
			#	%	\$	%
Low	31.0	11.1	7	19.4	250	9.8
Moderate	17.1	18.7	10	27.8	487	19.0
Middle	17.9	21.0	8	22.2	573	22.4
Upper	34.0	39.8	11	30.6	1,250	48.8
Income Not Available	0	9.3	0	0	0	0
TOTAL	100	100	36	100	2,560	100

Source: 1990 U.S. Census Data, and Bank Records

Lending in the Assessment Area

The bank has demonstrated a satisfactory level of lending inside the assessment area. Performance for this factor was based on a review of 62 business loans originated by the bank in 2003 and all 45 home loan originations in 2002 and 2003. By both number and dollar volume, a majority of loans was originated within the assessment area. *Table 6* presents the distribution of loans inside and outside the assessment area.

Table 6 – Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Dollars in Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	46	74.2	16	25.8	62	3,994	56.8	3,043	43.2	7,037
Home Loans	36	80.0	9	20.0	45	2,560	73.4	930	26.6	3,490
TOTAL	82	76.6	25	23.4	107	6,554	62.3	3,973	37.7	10,527

Source: Bank Records; Total percentages may not add to 100 due to rounding.

Geographic Distribution of Loans

The distribution of the bank’s business loans within the assessment area meets standards of performance for this criterion. The business loans are distributed among 71 percent of the census tracts in the assessment area. Because the assessment area used for the business loan analysis contains only middle-income census tracts, this evaluation of business loans for this performance factor carried little weight in the overall CRA rating.

Because of the lack of recent comparative data for home loans, the 1990 Census was used for the evaluation of 1-4 family residential loans. As noted earlier in this document, the assessment area based on the 1990 Census contained moderate-, middle-, and upper-income tracts. Home loan originations in the bank’s moderate-income tracts comprised 97.2 percent by number and 93.6 percent by dollar amount. This is notably higher than the 63 percent and 68 percent reported by the aggregate lenders in the assessment area. Two of the bank’s three full service offices are located in the moderate-income geographies. Since the 2000 Census denotes all assessment area tracts are middle-income, little weight is noted in arriving at the overall rating for this factor.

Response to CRA Complaints

The bank has successfully resolved all consumer complaints received since the previous CRA evaluation.

Fair Lending

No violations of the provisions of the anti-discrimination laws and regulations were identified.

GLOSSARY

GEOGRAPHY TERMS

Census Tract: Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Metropolitan Area (MA): One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 or Census Bureau-defined urbanized area and a total MA population of at least 100,000. An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county.

Metropolitan Statistical Area (MSA): One or more metropolitan areas that have economic and social ties.

Non-Metropolitan Area: All areas outside of metropolitan areas. The definition of a non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

Urban Area: All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs, and towns but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

Rural Area: Territories, populations and housing units that are not classified as urban.

HOUSING TERMS

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified into “male householder” (a family with a male householder and no wife present) or “female household” (a family with a family householder and no husband present).

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always the count of occupied housing units.

Housing Unit: Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

INCOME TERMS

Median Income: The median income divides the income distribution into two equal parts, one having incomes above the median and the other having incomes below the median.

Area Median Income: The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

Family Income: Includes the income of all members of a family that are age 15 and older.

Household Income: Includes the income of the householder and All other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household is usually less than median family income.

Low-Income: Individual income that is less than 40 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in

information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

OTHER TERMS

Home Mortgage Disclosure Loan Application Register (HMDA LAR): The HMDA LAR record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

Small Business Loan: A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.