



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 15, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank Of Mount Vernon
Charter Number 5409**

**101 W. Main Street
Mount Vernon, TX 75457**

**Comptroller of the Currency
ADC Marshall W. Mitchell
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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The First National Bank of Mount Vernon (FNB) has a satisfactory record of meeting community credit needs. This rating is based upon the following:

- ❖ A majority of loans sampled, representing 83% of the number and 89% of the dollar volume, originated within the bank's assessment area;
- ❖ The distribution of sampled consumer automobile purchase loans reflects an adequate penetration among low- and moderate-income households;
- ❖ An adequate penetration of the commercial loans sampled was made to businesses with revenues of less than \$1 million; and
- ❖ The distribution of sampled one-to-four family residential mortgage loans reflects an adequate penetration among low- and moderate-income families.

DESCRIPTION OF INSTITUTION

FNB is a community bank located in Mount Vernon, TX, with total assets of \$120 million as of June 30, 2003. Mount Vernon Bankshares, Inc., a one-bank holding company, wholly owns the bank. As of June 30, 2003, Mount Vernon Bankshares, Inc. had total assets of approximately \$120 million.

Currently, FNB serves all of Franklin and Camp Counties and portions of Hopkins and Titus Counties. Banking facilities consist of the main office and three branch locations. The main office is located at 101 W. Main Street in Mount Vernon. Branches are located across the street from the main office, north of Cypress Springs Lake at 6684 FM 115 in Scroggins, and in the Brookshire's Grocery Store at 306 S. Highway 37 in Mount Vernon. The bank also operates four automated teller machines (ATMs). ATMs are located at the main office, the Cypress Springs Lake and Brookshire's Grocery Store branches, and the Lowe's Regional Distribution Center, located on Interstate Highway 30 and Ripley Road. In September 2003, the ATM located in the Love's Country Store and Truck Stop, located on Interstate Highway 30 and Holbrook Street, was removed due to the owner's desire to change vendors.

FNB is a full service institution, providing a full range of deposit and loan products. Management's lending philosophy is to provide all types of loans to their community including one-to-four family residential mortgage loans, consumer loans, commercial loans, and agricultural loans. The following table portrays FNB's loan mix:

LOAN CATEGORY	\$ (000)	%
Residential Real Estate Loans	21,310	50.88
Commercial Real Estate Loans	6,834	16.32
Consumer Loans	6,329	15.11
Commercial Loans	3,337	7.97
Agricultural Production Loans	2,433	5.81
Agricultural Real Estate Loans	1,585	3.79
Other Loans	51	0.12
TOTAL	41,879	100.00

FNB was rated "Satisfactory" in its previous CRA Public Evaluation dated June 1, 1999. There are no financial or legal obstacles that affect the bank's ability to meet community credit needs. As of June 30, 2003, FNB had a "net loans to total assets" ratio of 34%.

DESCRIPTION OF THE ASSESSMENT AREA

FNB's assessment area includes all of Franklin and Camp Counties, the southwest quarter of Titus County, and the eastern half of Hopkins County. The assessment area consists of seven block numbering areas (BNAs), including six middle-income and one upper-income BNA. Franklin County includes BNAs 9501, 9502, and 9503. Camp County includes BNA 9501. The assessment area BNA in Titus County is 9502, with Hopkins County including 9501 and 9507. The bank's assessment area meets the requirements of the regulatory guidelines. The following table details the demographics for the assessment area (AA):

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	6,092
Number of Households	7,998
<i>Geographies</i>	
Number of Census Tracts/BNA	7 (100.00%)
% Low-Income Census Tracts/BNA	0 (0.00%)
% Moderate-Income Census Tracts/BNA	0 (0.00%)
% Middle-Income Census Tracts/BNA	6 (85.71%)
% Upper-Income Census Tracts/BNA	1 (14.29%)
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
2002 HUD-Adjusted MFI	\$36,100
<i>Economic Indicators</i>	
Unemployment Rate – Franklin County	3.1%*
Unemployment Rate – Hopkins County	5.9%*
Unemployment Rate – Titus County	5.0%*
Unemployment Rate – Camp County	6.8%*
2002 Median Housing Value	\$45,091
% Of Households Below Poverty Level	19%
% Of Households on Public Assistance	7%

* Unemployment Rates for August 2003 from Texas Workforce Commission Website

Within the assessment area, occupied housing units represent 77% of the total available, with owner-occupied housing at 61%, rental-occupied housing at 16%, and vacant housing units at 23%.

There are seven independent financial institutions located either within or adjacent to the assessment area. These institutions consist of other national and state chartered banks. The economy of the area is generally stable. The largest employers in the assessment area are Pilgrims Pride Corporation, Lowes Regional Distribution Center, Jordan Health Service, East Texas Medical Center, Carlton Manufacturing, Joe Tex, and the independent school districts. The industries that have the largest number of employees are poultry growing and processing, retail distribution, education, manufacturing, and health care.

The credit needs of the community were determined through interviews with individuals associated with the local Economic Development Corporation and Industrial Foundation. The community contacts indicated area financial institutions are supportive of economic development when possible and are diligent in trying to meet the credit needs of the community.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The June 30, 2003 Report of Condition indicates that the majority of FNB's loan portfolio consists of one-to-four family residential mortgage real estate loans. The next largest percentages of loans are commercial, commercial real estate, and consumer loans. We sampled each type of these loans originating between June 2, 1999 and December 31, 2002. We did not select any loans originated from January 1, 2003 to September 15, 2003, due to 2000 Census information unavailability.

Overall, FNB is meeting the standards of satisfactory performance. The bank's strengths are lending within its assessment area and to low- and moderate-income families and households.

LOAN-TO-DEPOSIT RATIO:

FNB's loan-to-deposit (LTD) ratio averaged 55.17% for the evaluation period, June 30, 1999 through June 30, 2003. We compared the average LTD ratio to seven other independent national or state chartered banks located within or adjacent to FNB's AA. Pilgrim Bank – Pittsburg and Franklin National Bank – Mount Vernon are the only independent banks located within the AA, while an additional five are located within communities adjacent to the AA. The seven comparable banks had an average LTD ratio of 79.35% during the evaluation period. This is significantly above FNB's; however, during December 2001, FNB acquired the local branch of a savings bank and approximately \$20 million in additional deposits. As of September 30, 2001, FNB's LTD ratio was 57.25%. The quarter following the acquisition, the LTD ratio declined to 43.54% and has remained at that level. Further, FNB's LTD ratio is comparable to the other local bank. Additionally, two of the three banks with the highest LTD ratios operate large branch networks that serve multiple assessment areas. Given the bank's size, the size of the community, the level of competition and local loan demand, the bank's financial condition and strategic plan, and assessment area credit needs, the LTD ratio is reasonable. Information on the comparable financial institutions is detailed in the following table:

INSTITUTION	ASSETS (000's as of 6/30/2003)	AVERAGE LTD RATIO
Pilgrim Bank – Pittsburg	\$230,826	98.14%
The American National Bank of Mount Pleasant	\$72,055	91.29%
Guaranty Bank – Mount Pleasant	\$529,267	88.64%
The City National Bank of Sulphur Springs	\$186,948	78.72%
First National Bank – Winnsboro	\$125,700	71.96%
Alliance Bank – Sulphur Springs	\$425,630	70.02%
Franklin National Bank – Mount Vernon	\$42,783	56.65%
<i>The First National Bank of Mount Vernon</i>	<i>\$119,868</i>	<i>55.17%</i>

LENDING IN ASSESSMENT AREA:

Based on our review of FNB’s lending patterns, the bank exceeds the standards of satisfactory performance. Our sample of 20 home purchase loans, 20 consumer loans, and 20 commercial loans revealed 83% of the number and 89% of the dollar volume were originated within the bank’s assessment area. The following table details the sample findings:

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	18	90	758	94	2	10	45	6
Commercial	17	85	399	91	3	15	41	9
Consumer	15	75	165	67	5	25	82	33
Total Reviewed	50	83	1,322	89	10	17	168	11

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES:

The bank meets the standard for satisfactory performance in lending to borrowers of different incomes and to businesses of different sizes.

We reviewed a sample of one-to-four family home purchase mortgage loans made during the evaluation period, which originated within FNB’s assessment area. FNB’s home purchase lending to low- and moderate-income borrowers is satisfactory based on the demographics of the assessment area. The number of home purchase loans extended to low- and moderate-income borrowers matches the percentage of low- and moderate-income family demographics, while the dollar amount of sampled loans fell below the percentages. A dollar volume below demographic percentages is reasonable given the median housing value of \$45 thousand. The value of homes that low- and moderate-income families qualify for is generally below the median home value. Further, the availability of lower value homes is greater within the assessment area due primarily to the age of the homes available within the used home market. Overall, the bank’s penetration to low- and moderate-income borrowers meets the standards for satisfactory performance when compared to the percentage of low- and moderate-income families within the assessment area as seen in the following table:

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21.3		16.2		18.5		44.0	
LOANS	% of Number	% of Amount						
Total	20	8.4	15	10.7	20	17.4	45	63.5

We also reviewed a sample of consumer automobile purchase loans made during the evaluation period, which originated within the FNB's assessment area. FNB's consumer automobile purchase lending to low- and moderate-income households is satisfactory based upon the demographics of the assessment area. The number of home purchase loans to low- and moderate-income borrowers is comparable to the percentage of low- and moderate-income family demographics, while the dollar amount of sampled loans is below the percentages. This is reasonable given the loan amount low- and moderate-income households qualify for when purchasing an automobile. Overall, the bank's penetration to low- and moderate-income borrowers meets the standards for satisfactory performance when compared to the percentage of low- and moderate-income households within the assessment area as seen in the following table:

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	24.3		15.6		16.0		44.1	
LOANS	% of Number	% of Amount						
Total	20	7.7	10	10.1	15	24.9	45	57.3

FNB has originated an adequate number of loans to businesses with revenues of less than \$1 million. We reviewed a sample of 20 commercial and commercial real estate loans originated within the bank's assessment area. The following table details the findings of the sample:

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	95.0	5.0
% of Bank Loans in AA #	94.1	5.9
% of Bank Loans in AA \$	64.8	35.2

GEOGRAPHIC DISTRIBUTION OF LOANS:

An analysis of the geographic distribution of loans was not performed. An analysis would not be meaningful due to the lack of low- or moderate-income block numbering areas within FNB's assessment area.

RESPONSES TO COMPLAINTS:

FNB has not received any CRA related complaints during this evaluation period.

FAIR LENDING REVIEW:

An analysis of four years public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. We found no evidence of illegal discrimination or other illegal credit practices. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in 1999.