



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

January 03, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank of Canton
Charter Number 8891

231 East Tyler Street
Canton, TX 75103-0000

Office of the Comptroller of the Currency

Longview Field Office
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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.

The First National Bank of Canton (FNBC) has a satisfactory record of meeting community credit needs. This rating is based on the following:

- The bank’s loan to deposit ratio is good based on its size and complexity.
- 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.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is an assessment of FNBC’s ability to meet 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 are based on residential real estate and consumer loans originated from January 1, 2009 to December 31, 2011. Additionally, a sample of commercial loans was also reviewed in the Van Zandt assessment area. Due to the low volume, commercial loans were not reviewed in the Forney assessment area.

DESCRIPTION OF INSTITUTION

First National Bank of Canton (FNBC) is a \$120 million bank located in Canton, Texas, approximately 60 miles east of Dallas, Texas and 35 miles northwest of Tyler, Texas. FNBC serves Van Zandt County through two banking locations in Canton, Texas. The bank also has a branch in Forney, Texas which serves parts of Kaufman and Rockwall Counties. The bank is a sub-chapter S Corporation with no holding company affiliations. FNBC’s philosophy is to be a full service institution by providing a wide array of financial services to consumers and commercial businesses. There are no financial or legal obstacles affecting the bank’s ability to meet community credit needs. The bank was rated satisfactory during the prior Community Reinvestment Act (CRA) Examination dated June 18, 2007. The following chart reflects the distribution of the bank’s loan portfolio:

Loan Category	\$ (000)	%
Agricultural Loans	\$5,317	8.83%
Commercial Loans	\$18,212	30.23%
Residential Real Estate Loans	\$27,839	46.23%
Consumer Loans	\$8,856	14.71%
Total	\$60,224	100.00%

DESCRIPTION OF ASSESSMENT AREAS

The Board has designated the entire county of Van Zandt as one assessment area and census tracts 502.01 and 502.02 in Kaufman County and census tracts 405.01 and 405.02 in Rockwall County as the assessment area for the Forney branch location. The bank’s main office and a motor bank are located in Van Zandt County while a full service branch is located in Kaufman County. These assessment areas meet the requirements of the Community Reinvestment Act and do not arbitrarily exclude low and moderate-income geographies. Our review included an assessment of the bank’s lending in both assessment areas.

VAN ZANDT COUNTY ASSESSMENT AREA

FNBC’s main office is located in Canton, Texas in Van Zandt County. Van Zandt County has no low or moderate income tracts, 8 middle income tracts, and 2 upper income tracts. Based on 2000 census data, the county has a total population of 48,140 and the local economy is considered stable. The bank’s primary competition consists of branches of larger national and state banks, all of which operate within the bank’s assessment area. The distribution of families by income level, regardless of census tract location, consists of the following: 16.86% are low income, 15.26% are moderate income, 20.99% are middle income, and 46.89% are upper income. Major employers in Van Zandt County include Wal-Mart, Canton Independent School District, Van Zandt County, and Winning Strategies. Our contact with a local business organization in Canton revealed the primary credit needs for the assessment area are residential mortgages and small commercial loans. The contact also noted the lack of available affordable housing in the area. The following table reflects the demographics for the assessment area:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF VAN ZANDT COUNTY	
<i>Population</i>	
Number of Families	13,790
Number of Households	18,233
<i>Geographies</i>	
Number of Census Tracts/BNA	10
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	80.00%
% Upper-Income Census Tracts/BNA	20.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2010 HUD-Adjusted MFI	\$46,500
<i>Economic Indicators</i>	
2011 Unemployment Rate	7.5%
2010 Median Housing Value	\$67,414
% of Households Below Poverty Level	13.79%

Source: U.S. Census data and Bureau of Labor Statistics

KAUFMAN/ROCKWALL COUNTIES ASSESSMENT AREA(S)

The bank has designated census tracts 502.01 and 502.02 in Kaufman County and tracts 405.01 and 405.02 in Rockwall County as its assessment area for the branch located in Forney, Texas. One tract is considered middle income with three tracts considered upper income tracts. There are no low or moderate income tracts in this assessment area. The area in which the bank is located is a part of the county which has seen significant growth in the last 10 years, including housing and commercial businesses. Due to poor economic conditions, that growth has slowed since 2008 and is now stable with a low growth rate. Competition is strong with several branches of larger national and state banks operating within the bank’s assessment area. Based on 2000 census data, the distribution of families by income level, regardless of census tract location, consists of the following: 12.06% are low income, 15.24% are moderate income, 19.88% are middle income, and 52.82% are upper income. Major employers in the area include Forney ISD, Wal-Mart and Orange County Container. Contact with a local business organization in Forney revealed the primary credit need for the assessment area is residential mortgages. The contact also noted the lack of available affordable housing in the area. The following table reflects the demographics for the assessment area:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE FORNEY AA	
Population	
Number of Families	7,580
Number of Households	9,001
Geographies	
Number of Census Tracts/BNA	4
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	25.00%
% Upper-Income Census Tracts/BNA	75.00%
Median Family Income (MFI)	
2000 MFI for AA	\$56,313
2010 HUD-Adjusted MFI	\$68,900
Economic Indicators	
2011 Unemployment Rate	8.9%
2010 Median Housing Value	\$142,679
% of Households Below Poverty Level	4.03%

Source: U.S. Census data and Bureau of Labor Statistics

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Management has demonstrated satisfactory performance in meeting the credit needs of the community. The following sections provide detail of our assessment of each performance criteria.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNBC is reasonable given the bank's size, financial condition and assessment area credit needs. FNBC's loan-to-deposit ratio is comparable to other banks headquartered within the bank's assessment area. The bank's quarterly loan-to-deposit ratio has averaged 56.12% since the prior CRA examination. The quarterly average loan-to-deposit ratio of banks within the assessment area, regardless of size, for the same time period is 54.73%.

Institution	Assets (000s) (as of 9/30/11)	Average LTD Ratio
The First National Bank of Canton	\$119,590	56.12%
The First National Bank of Edgewood	\$18,315	46.38%
First State Bank of Ben Wheeler	\$112,046	49.00%
Citizens National Bank of Wills Point	\$98,245	68.34%
Lakeside National Bank	\$52,694	35.25%
Texas Leadership Bank	\$57,393	82.19%
The First National Bank of Kemp	\$54,414	47.23%

Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed all HMDA home reportable loans for the years 2009, 2010 and 2011 and a sample of consumer loans in each assessment area. Additionally we reviewed commercial loans originated in Van Zandt County. Commercial loans were not reviewed in the Forney assessment area due to the low volume of this product. This sample reflected approximately 80% of the number of loans and 68% of the dollar amount of loans were extended in the bank's assessment areas. The breakdown by loan category is illustrated in the following table:

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Res RE	110	76.39	34	23.61	144	8,335	65.84	4,324	34.16	12,659
Comm	18	90.00	2	10.00	20	1,994	72.80	745	27.20	2,739
Consumer	35	87.50	5	12.50	40	579	92.79	45	7.21	624
Totals	163	79.90	41	20.10	204	10,908	68.08	5,114	31.92	16,022

Source: Loan Sample

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

FNBC's overall distribution of loans by income level of the borrower reflects a reasonable penetration given the overall demographics of the bank's assessment areas. The median cost of housing in Van Zandt County is \$67 thousand while a low-income person earns less than \$24 thousand based on the HUD updated 2010 median family income. Additionally, over 14% of the households in the assessment area live below the poverty level with approximately 20% of the population retired. In the Forney assessment area, the median cost of housing is \$143 thousand with a low income person earning less than \$35M. According to community contacts in both assessment areas, low income housing stock is very limited, especially in the Forney assessment

area which includes many new subdivisions and very few older areas which would be more affordable for low and moderate income borrowers. Furthermore, competition for home mortgage products is strong with numerous bank, mortgage companies and financial institutions vying for these products. We considered these mitigating factors in our home mortgage lending analysis to low and moderate-income borrowers.

The distribution of home loans by borrower income level is reasonable in the Van Zandt County and Forney assessment areas. The percentage of loans to low and moderate-income borrowers in Van Zandt County is below the percentage of low- and moderate- income families and is reflective of the factors discussed above. In the Forney assessment area, the percentage of loans to low income borrowers is less than the percentage of low income families. However, the percentage of residential loans to moderate income borrowers is greater than the percentage of moderate income families.

RESIDENTIAL REAL ESTATE								
	LOW INCOME BORROWERS		MODERATE INCOME BORROWERS		MIDDLE INCOME BORROWERS		UPPER INCOME BORROWERS	
	% of AA Families	% of Bank Loans	% of AA Families	% of Bank Loans	% of AA Families	% of Bank Loans	% of AA Families	% of Bank Loans
Van Zandt	16.86	3.16	15.26	5.26	20.99	16.84	46.89	74.74
Forney	12.06	0.00	15.24	26.67	19.88	13.33	52.82	60.00

Source: Loan Sample; U.S. Census data

The distribution of consumer loans reflects a good penetration among borrowers of different income levels. In Van Zandt County, the distribution of loans to low-income borrowers is near to the percentage of low income households in the assessment area. The distribution of loans to moderate income borrowers by number exceeds the percentage of moderate-income households. In the Forney assessment area, the distribution of loans to low-income borrowers exceeds the percentage of low income households in the assessment area. The distribution of loans to moderate income borrowers by number is near to the percentage of moderate-income households.

CONSUMER LOANS								
	LOW INCOME BORROWERS		MODERATE INCOME BORROWERS		MIDDLE INCOME BORROWERS		UPPER INCOME BORROWERS	
	% of AA Households	% of Bank Loans	% of AA Households	% of Bank Loans	% of AA Households	% of Bank Loans	% of AA Households	% of Bank Loans
Van Zandt	21.55	18.18	14.02	27.27	17.22	22.73	47.21	31.82
Forney	11.85	16.00	14.20	12.00	16.54	44.00	57.40	28.00

Source: Loan Sample; U.S. Census data

The bank’s distribution of loans to small businesses in the Van Zandt County assessment area is reasonable. The percentage of loans to businesses with revenues of \$1 million or less exceeds the percentage of businesses with revenues of \$1 million or less. Commercial loans are not a significant portion of the loan portfolio in the Forney assessment area and were not reviewed during this examination.

Borrower Distribution of Loans to Businesses in Van Zandt County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80.77	2.80	16.44	100%
% of Bank Loans in AA by #	86.36	13.64	0	100%
% of Bank Loans in AA by \$	95.29	4.71	0	100%

Source: Loan sample; Dun and Bradstreet data

Geographic Distribution of Loans

A geographic analysis of lending activity within the Van Zandt County or Forney assessment areas was not performed. There are no low or moderate-income geographies located in either assessment area, and therefore, an analysis would not be meaningful.

Responses to Complaints

FNBC 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 the community credit needs.