



SMALL BANK

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

PUBLIC DISCLOSURE

May 14, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Paragon National Bank
Charter Number 24538**

**5400 Poplar Avenue
Memphis, TN 38119**

**Comptroller of the Currency
Little Rock (Memphis) Field Office
10201 West Markham, Suite 105, Ozark National Life Building
Little Rock, AR 72205**

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 following performance factors were used in determining the bank's overall CRA rating:

- The average loan-to-deposit ratio at 92 percent is satisfactory given the bank's size, financial condition, and assessment area (AA) credit needs.
- A majority of the bank's loans are located in its AA.
- The distribution of loans reflects reasonable penetration among individuals of different income levels.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.

SCOPE OF EXAMINATION

An onsite examination of the bank was performed to determine its performance under the Community Reinvestment Act (CRA). This is the bank's first CRA examination and was evaluated using Small Bank CRA criteria. Loan information used for this evaluation included 2006 Home Mortgage Disclosure Act (HMDA) data, and information from commercial loans made in 2006. A data integrity examination of the bank's 2006 HMDA report was performed concurrently with no significant deficiencies noted. This performance evaluation covers the period since the bank's inception on January 19, 2005 to May 8, 2007.

DESCRIPTION OF INSTITUTION

Paragon National Bank (PBN) was chartered on January 19, 2005. Currently, it is a \$234 million bank with locations in the Memphis Metropolitan Statistical Area (MSA). The main office is located at Poplar Road, Memphis, Tennessee, with four branch locations located in southeast Memphis and Germantown. The bank offers a wide variety of loan products, including commercial loans, residential construction loans, mortgage loans, a variety of consumer loans, and a full range of deposit products. Delivery services include 24-hour telephone banking, customer access to 4 full-service automated teller machines (ATMs) in the Memphis MSA, and a full range of services through its internet banking website. The bank offers its small business customers several cash management tools available to make their banking more convenient, including remote deposit capture, lockbox, internet banking, and courier service to pick up deposits. As of December 31, 2006, bank loans totaled \$171 million representing approximately 73 percent of total assets. The following table reflects the distribution of the bank's loan portfolio.

Loan Category	\$(000)	%
Residential Real Estate	\$116,759	68
Commercial and Commercial Real Estate	\$49,208	29
Consumer	\$4,777	3
Other	\$379	0
Total	\$171,123	100

The bank's business strategy is to provide a high level of customer service combined with up-to-date technology. The bank's primary lending focus is residential real estate. The bank has a separate mortgage banking department in order to specialize in this type of lending. The bank is locally owned and operated. There are no legal impediments that would prevent the bank from meeting the credit needs of its AA.

DESCRIPTION OF ASSESSMENT AREA

The bank's AA includes the east Memphis and Germantown areas of Shelby County, Tennessee along with four census tracts located in Fayette County, Tennessee. The bank delineated 113 of the 216 census tracts located in the Memphis MSA. According to the 2000 Census, there are five low-income, 19 moderate-income, 31 middle-income, and 58 upper-income census tracts in the Bank's AA. The AA delineation is in conformance with the CRA regulation. The AA consists of whole geographies and does not arbitrarily exclude any low- or moderate-income areas.

Economic conditions in the Memphis, Tennessee, MSA appear to be stable and improving. Based on March 2007 statistics provided by the Bureau of Labor Statistics, the Memphis MSA had an unemployment rate of 5.5 percent, which is slightly above the state-wide average of 5.0 percent. The bank's AA is characterized by a high percentage of families classified as upper-income at 53 percent, followed by middle-income at 19 percent, moderate-income at 14 percent, and low-income at 14 percent. Banking competition is considered strong, with numerous branches of large regional banks, credit unions, finance companies, and mortgage companies located throughout the county.

A community contact was performed during the evaluation to obtain current information concerning the Memphis-MSA. The contact indicated that the current economy is improving due to the expansion and diversification of the job market. New industries such as biosciences and biomedicines have entered the market as well as the relocation of Service Master's headquarters to the Memphis area. The contact also indicated that while housing costs remain low, the value of homes in Memphis has declined due to increased construction of new homes outside the area, and a high foreclosure rate.

The primary credit needs of the community are financing options for low-income and moderate-income home buyers and first-time home buyers. The community contact indicated that while local banks meet the overall needs of the AA, the larger institutions have been less willing to participate in these types of programs. Also, banks could assist affordable housing organizations through participation in homeownership classes and foreclosure prevention/intervention programs.

Demographic and Economic Characteristics Memphis MSA	
Population	
Population	538,005
Number of Families	143,853
Number of Households	204,966
Geographies	
Number of Census Tracts	113
% Low-Income Census Tracts	4
% Moderate-Income Census Tracts	17
% Middle-Income Census Tracts	27
% Upper-Income Census Tracts	51
Not Applicable	1
Median Family Income (MFI)	
2000 MFI for AA	\$46,771
2006 HUD-Adjusted MFI	\$54,400
Economic Indicators	
Unemployment Rate – MSA March 2007	5.5
Unemployment Rate – Tenn March 2007	5.0
Unemployment Rate – USA March 2007	4.4
Median Housing Value as of 2000	\$127,879
% of Households Below Poverty Level	8

Source: 2000 U.S. Census Data

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

PNB's average loan-to-deposit ratio at 92 percent is satisfactory given its size, financial condition, and AA credit needs. The table below is a comparison of the bank's average lending volume since inception. For purposes of this analysis, six local banks conducting business in the bank's AA were used to determine the bank's performance for this criteria. These banks include: Independent Bank, First Capital Bank, First Alliance Bank, Bank of Tennessee, Bank of Bartlett, and Landmark Community Bank.

Institution	2005 Q1	2005 Q2	2005 Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	Average
Independent Bank	91.93	91.26	93.71	98.15	97.32	101.13	100.73	99.22	96.68
First Capital Bank	92.70	98.68	96.35	97.08	91.71	91.10	91.55	96.02	94.40
First Alliance Bank	92.74	95.91	90.05	94.10	87.76	89.17	86.28	90.32	90.79
Bank of Tennessee	76.54	84.94	84.36	79.47	78.13	78.50	75.53	74.70	79.02
Bank of Bartlett	64.91	67.37	66.44	68.54	70.92	75.35	79.41	83.02	72.00
Landmark Community Bank	58.77	64.25	65.46	79.97	73.34	52.56	57.72	54.93	63.38
Competitor Average	79.60	83.74	82.72	86.22	83.20	81.30	81.87	83.04	82.71
Paragon National Bank	69.80	102.77	95.95	96.80	94.01	90.61	92.56	95.74	92.28

Source: Uniform Banking Performance Report (Call Reports)

Lending in Assessment Area

A majority of PNB loans are located in its AA. The table below reflects home purchase, home refinance, and commercial loans made during 2006. As indicated, 72 percent of the loans were customers located in the bank's AA by number, and 66 percent by dollar volume.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home Purchase	115	61	18,573	69	74	39	8,182	34
Refinance	34	79	5,098	82	9	21	1,114	18
Commercial	123	75	15,086	58	42	25	11,046	42
Total Reviewed	320	72	38,757	66	125	28	20,342	34

Source: 2006 Bank Data

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

A sample of home purchase and refinance home loans made by the bank in 2006, were used to determine the bank's performance under these criteria. As reflected in the following tables, the bank has reasonable penetration among individuals of different incomes as compared to 2000 census data. Income levels for these categories are based on the percent of the median family income for the AA.

Income Distribution – Home Purchase								
Borrower Income Level	Low Income (Less than 50%)		Moderate Income (50% to 79%)		Middle Income (80% to 119%)		Upper Income (120% or more)	
% of Families Located in Memphis MSA	14		14		19		53	
PNB Loans Made in 2006	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	2	1	9	5	14	9	74	85

Source: 2006 Bank Data and 2000 Census Data

The overall income distribution for home purchase loans is reasonable. The level of lending to low-income borrowers is poor. The eight percent poverty level within the AA limits the bank's opportunity to qualify borrowers for home loan products. The level of lending to moderate-income borrowers is only somewhat below the demographics of the AA.

Income Distribution – Home Refinance								
Borrower Income Level	Low Income (Less than 50%)		Moderate Income (50% to 79%)		Middle Income (80% to 119%)		Upper Income (120% or more)	
% of Families Located in Memphis MSA	14		14		19		53	
PNB Loans Made in 2006	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0	0	13	5	10	9	77	86

Source: 2006 HMDA Data and 2000 Census Data

Lending for home refinance is also reasonable. While the level of lending to low-income borrowers is poor, the level of lending to moderate-income borrowers substantially meets the demographics of the AA.

Geographic Distribution of Loans

A sample of home purchase, home refinance, and commercial loans (including residential construction) made by the bank in 2006, were used to determine its performance under these criteria. According to the 2000 census, there are 113 census tracts located in the bank's AA. Of this total, five are low-income, 19 moderate-income, 31 middle-income, and 58 upper-income. As reflected in the following three tables, the geographic distribution of loans reflects reasonable dispersion throughout the AA.

Geographic Distribution – Home Purchase								
Census Tract Income Level	Low Income		Moderate Income		Middle Income		Upper Income	
% of Owner Occupied Located in Memphis MSA	1		10		26		63	
PNB Loans Made in 2006	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0	0	4	1	25	13	71	86

Source: 2006 Bank Data and 2000 Census Data

Geographic Distribution – Home Refinance								
Census Tract Income Level	Low Income		Moderate Income		Middle Income		Upper Income	
% of Owner Occupied Located in Memphis MSA	1		10		26		63	
PNB Loans Made in 2006	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0	0	3	1	12	6	85	93

Source: 2006 Bank Data and 2000 Census Data

PNB’s geographic distribution of home purchase and refinance loans is reasonable. While there are no loans in low-income geographies, the opportunity to make home purchase and refinance loans in the low-income geographies is limited with only 817 low-income owner-occupied units from a total of 144 thousand in the AA. The bank’s percentage of loan in moderate-income geographies is also below the percentage of owner-occupied units in those geographies. This is due to the fact that this bank has only been in operation for two years.

Responses to Complaints

The Bank has not received any CRA related complaints since its inception on January 19, 2005.

Fair Lending or Other Illegal Credit Practices Review

No evidence was found of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.