



PUBLIC DISCLOSURE

January 11, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Panola National Bank
Charter Number 17967

1510 West Panola
Carthage, TX 75633

Office of the Comptroller of the Currency

1800 NW Loop 281
Suite 306
Longview, TX 75604-2516

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

Panola National Bank in Carthage, Texas has a satisfactory record of meeting the credit needs of its community. We based this on the conclusions listed below:

- The bank's loan to deposit ratio is reasonable based on its performance context and lending opportunities within its assessment area.
- A substantial majority of the bank's lending is extended within the bank's assessment area.
- The bank had reasonable penetration among individuals of different income levels and businesses and farms of different sizes.
- The geographic distribution of loans reflects poor dispersion throughout the assessment area.

SCOPE OF EXAMINATION

The scope of the examination was to assess the bank's ability to meet the credit needs of the communities in which it operates. The bank was evaluated under the Small Bank Community Reinvestment Act (CRA) performance criteria. The examination included an evaluation of one assessment area that included all of Harrison and Panola Counties. We based the conclusions regarding the bank's lending performance on the bank's primary products, which include residential home loans and consumer loans, originated from January 1, 2013 through June 30, 2015. Bank management agreed with this period of data analysis.

DESCRIPTION OF INSTITUTION

Panola National Bank is a \$130 million institution headquartered in Carthage, Texas. The bank is wholly owned by Panola National Bancshares. The main office is located at 1510 West Panola Street, Carthage, Texas. There is one full service branch located at 2204 Victory Drive, Marshall, Texas. Panola National Bank is a retail oriented bank with a focus on consumer, residential real estate, and commercial lending. As of June 30, 2015, loans totaled \$52 million, representing 40.6 percent of total assets. The following chart reflects the distribution of the bank's loan portfolio:

Loan Category	\$ (000)	%
Residential Real Estate Loans	\$27,273	52.21%
Consumer Loans	\$9,540	18.26%
Commercial Real Estate Loans	\$8,360	16.00%
Commercial Loans	\$5,125	9.81%
Agriculture Loans	\$1,254	2.40%
Other Loans	\$690	1.32%
Total	\$52,242	100.00%

There are no legal impediments or other factors which inhibit the bank's ability to meet the credit needs of the community. The bank was rated "Satisfactory" at the prior CRA examination dated June 28, 2011.

DESCRIPTION OF ASSESSMENT AREA(S)

The board has designated one assessment area, which includes Harrison and Panola Counties in their entirety. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude any low- or moderate-income geographies.

Panola National Bank has two banking offices, one located in Carthage, Texas and one located in Marshall, Texas. The assessment area has no low-income census tract, three moderate-income census tracts, six middle-income census tracts, and eleven upper-income census tracts. Based on 2000 census data, the assessment area has a total population of 89,427 and the local economy is considered weak but stable. The bank's primary competition consists of several branches of national and state chartered banks. The distribution of families by income level, regardless of census tract location consists of the following: 17.95 percent are low income, 15.36 percent are moderate income, 18.92 percent are middle income, and 47.77 percent are upper income. Major employers include Tyson Foods, Carthage Independent School District, Eastman Chemical, Trinity Industries, and Good Shepherd Medical Center. Contact with the city of Carthage revealed the need for residential and small business loans. The following table reflects the demographics for the assessment area:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS	
<i>Population</i>	
Number of Families	22,967
Number of Households	31,629
<i>Geographies</i>	
Number of Census Tracts/BNA	20
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	15.00%
% Middle-Income Census Tracts/BNA	30.00%
% Upper-Income Census Tracts/BNA	55.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$47,817
2011 HUD-Adjusted MFI	\$51,600
<i>Economic Indicators</i>	
Unemployment Rate	4.34%
2015 Median Housing Value	\$91,823
% of Households Below Poverty Level	14.53%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall lending performance is satisfactory. The bank's loan-to-deposit ratio is reasonable and a substantial majority of loans are within the bank's assessment area.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of Panola National Bank is reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio is 48.28 percent since the prior CRA examination in June 2011. The bank's loan-to-deposit ratio is 45 percent as of June 30, 2015. The average loan-to-deposit ratio within the assessment area since June 2011 was 60.82 percent.

Institution	Assets (000s) (as of 6/30/2015)	Average LTD Ratio
Panola National Bank	\$129,962	48.28%
The First National Bank of Hughes Springs	\$240,772	66.06%
Community Bank	\$219,366	79.80%
First State Bank and Trust Company	\$513,555	42.54%
Farmers State Bank	\$356,295	54.90%

Lending in Assessment Area

A substantial majority of the bank’s lending activity is located within the assessment area. We reviewed consumer and residential real estate loans that were originated from January 1, 2013 through June 30, 2015. The break down 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
	#	%	#	%		\$	%	\$	%	
Consumer	19	95.00%	1	5.00%	20	\$1,914	79.71%	\$487	20.29%	\$2,401
Residential Real Estate	16	80.00%	4	20%	20	\$454	90.08%	\$50	9.92%	\$504
Totals	35	87.50%	5	12.50%	20	\$2,368	80.13%	\$537	19.87%	\$2,905

Source: Loan Sample

Lending to Borrowers of Different Incomes

Panola National Bank’s distribution of loans to borrowers of different income levels represents a reasonable penetration given the overall demographics of the bank’s assessment area.

The penetration of residential real estate loans by borrower income level is reasonable based on the demographics of the assessment area. While loans extended to low-income borrowers were less than the demographics in the assessment area, loans extended to moderate-income borrowers were near the demographics.

Opportunities to lend to low-income families in the assessment area are limited with 14.53 percent of households below the poverty level. In addition, the number of households on social security or public assistance totaled 35.67 percent. Furthermore, the median housing cost totaled \$91,823, limiting a low-income borrower’s ability to qualify for a residential mortgage.

Borrower Distribution of Residential Real Estate Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Residential Real Estate	17.95	0.00	15.36	15.00	18.92	20.00	47.77	65.00

Source: Loan Sample, US Census data

The bank’s penetration of consumer loans is reasonable. Consumer loans to low- and moderate-income households represent 25 and 27 percent of assessment area households, respectively.

Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer	21.40	25.00	13.45	26.67	17.31	18.33	47.84	21.67

Source: Loan Sample, US Census data

Geographic Distribution of Loans

Panola National Bank’s overall geographic distribution of loans represents a poor dispersion given the overall demographics of the bank’s assessment area.

The geographic dispersion of residential real estate loans is poor. There are no residential real estate loans in low- or moderate-income census tracts. However, there are several mitigating factors. There are only three moderate-income census tracts in the bank’s assessment area. All three moderate-income census tracts are located in Harrison County, where the bank’s branch office is located. A majority of the bank’s lending is done in Panola County with 87 percent of all loans made during the analysis period. The bank has a 2.15 percent deposit market share in Harrison County and twenty-two home loans were made in Harrison County.

In addition, competition in Harrison County is high with several large banks located in the moderate-income census tracts. Furthermore, there are two colleges located in two of the moderate-income census tracts. Finally, 14.53 percent of households are below the poverty level and the number of households on social security or public assistance totaled 35.67 percent. With the median housing cost totaling \$91,823, this makes it difficult for a low-income borrower to qualify for a residential mortgage.

Geographic Distribution of Residential Real Estate Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans	% of AA Owner Occupied Housing	% of # of Loans
Residential Real Estate	0.00	0.00	8.81	0.00	36.77	45.00	54.42	55.00

The geographic dispersion of consumer loans is poor. There are no consumer loans in the low-income census tracts and a low number of loans in the moderate-income census tracts. However, there are several mitigating factors. There are only three moderate-income census tracts in the bank’s assessment area. All three moderate-income census tracts are located in Harrison County, where the bank’s branch office is located. A majority of the bank’s lending is done in Panola County with 87 percent of the loans made during the analysis period. The bank has a 2.15 percent deposit market share in Harrison County. In addition, competition in Harrison County is high with several large banks located in the moderate-income census tracts. Furthermore, there are two colleges located in two of the moderate-income census tracts. Finally, 14.53 percent of households are below the poverty level and the number of households on social security or public assistance totaled 35.67 percent. With the median housing cost totaling \$91,823, this makes it difficult for a low-income borrower to qualify for a residential mortgage.

Geographic Distribution of Consumer Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer	0.00	0.00	10.70	1.67	37.04	35.00	52.26	63.33

Responses to Complaints

Panola National Bank did not receive any CRA-related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank’s (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s lending performance.

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