



PUBLIC DISCLOSURE

January 11, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Pike National Bank
Charter Number 20493

350 Rawls Drive
Mccomb, MS 39648-3605

Office of the Comptroller of the Currency

3838 North Causeway Blvd.
Suite 2890
Metairie, LA 70002-8105

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

Major factors supporting the assigned rating are as follows:

- The bank's average loan-to-deposit (LTD) ratio of 77.12 percent for the evaluation period is considered reasonable in light of the bank's size, competition, market loan demand, and financial condition.
- The substantial majority of loans by both number of loans and dollars originated by the bank during the period of review were extended to borrowers within its assessment area (AA).
- Mortgage and commercial loan products reflect reasonable penetration among borrowers of different income levels, including low and moderate-income customers and businesses with incomes less than \$1 million.
- The geographic dispersion of mortgage and commercial loan products originated by the bank during the period of review is excellent.

SCOPE OF EXAMINATION

This assessment of Pike National Bank's (PNB) CRA performance was conducted using the Interagency Small Bank CRA procedures, dated February 2006. Our analysis of the bank's CRA performance is based primarily on the distribution by income and geography of a random sample of 46 loans made between January 1, 2013 and December 31, 2015. This sample was comprised of residential real estate and commercial loans, which represent the bank's primary loan products. A community leader in the bank's AA was also consulted to obtain feedback on the area's demographics, perceived credit needs, and financial institution responsiveness to identified needs.

DESCRIPTION OF INSTITUTION

PNB is a \$209 million, nationally chartered community bank headquartered in McComb, MS, the population center of Pike County. PNB (established 1985) is the youngest of two banks headquartered in Pike County. The bank is 100 percent owned by PCNB Corporation, a one-bank holding company. As of December 31, 2015, ownership of the holding company was varied. However, one insider controls 12.05 percent of the company's outstanding shares through shares individually owned and those of related interests that they control.

PNB offers a full range of loan and deposit products, and serves its community from a main office and four (4) branches, located in the Mississippi cities of McComb (2), Brookhaven (1), and Tylertown (1). PNB relocated its Brookhaven, MS branch from a

strip center to a standalone branch (located in a moderate-income census tract) in 2011. PNB closed its Magnolia, MS branch (located in a middle-income census tract) in 2013 as it only facilitated deposit transactions for the community. PNB also divested itself of its wholly owned consumer finance company subsidiary (Pikco Finance) during this period. Reduced lending volume, combined with the inability to retain management, influenced the company's sale of Pikco in 2013 to a concern who is a customer of PNB.

With the exception of the McComb-Broadway location, all locations offer full banking services, including drive-up facilities and proprietary Automated Teller Machines (ATMs) that accept check deposits. PNB offers a competitive advantage in McComb in that its main office has banking hours from 7:00 AM to 7:00 PM (drive thru). The main office in McComb and the Tylertown branch offer Saturday hours. All locations offer extended hours on Fridays. PNB also offers telephone, Internet, and mobile banking as alternative delivery channels. While not yet available, management signed a contract in December 2015 to begin offering mobile deposit capture ability to customers with Apple or Android devices. This product is anticipated to be offered to customers during the second quarter of 2016.

As of December 31, 2015, no legal, financial, or regulatory impediments have been identified that would impact the bank's ability to help meet the credit needs of its AA. PNB was designated a Community Development Financial Institution (CDFI) by the U.S. Treasury Department in December 2015. This designation is given to organizations that provide financial services in low-income communities and to people who lack access to financing. These institutions are eligible to apply for awards through a variety of programs offered by the CDFI Fund. These awards enable such institutions to finance a wide range of activities, including mortgage lending for first-time homebuyers, flexible underwriting for community facilities, and commercial loans for businesses in low-income areas.

The Federal Deposit Insurance Corporation (FDIC) Market Share report as of June 30, 2015 shows that PNB held less market share than its competitors for each county in the bank's AA. PNB's market share ranged from a high of 18.15 percent in Pike County (3rd among 8 banks) to a low of 2.50 percent in Lincoln County (7th among 8 banks). PNB received a "Satisfactory" rating at its previous CRA examination (September 7, 2010).

PNB's primary business focus is 1-4 Family real estate and commercial lending. There has been no change in business focus since the previous CRA examination, but consumer loans (as a percentage of the bank's loan portfolio) declined during this period. Because PNB files a consolidated Call Report, retail loan volume included the assets of Pikco Finance, which was sold in 2013. It is noted that Pikco loans were not included in the lending tests of previous PNB CRA examinations.

PNB’s broad loan mix based on its September 30, 2015 Call Report is as follows:

Table 1- PNB Loans by Type – September 30, 2015 Call Report		
Loan Category	\$ (000)	%
1-4 Family RE	40,515	30.43
Commercial & Industrial Loans*	78,336	58.83
Consumer Loans	14,298	10.74
Total	133,149	100.00%
* Commercial and Industrial loans also include commercial RE		

PNB’s competition is strong as eight (8) other banks operate within PNB’s AA. Trustmark NB has offices in all three counties of PNB’s AA, while First Bank (also headquartered in McComb, MS) has offices in two of the counties. Both of these banks are significantly larger than PNB and operate more offices, including at least one located in a Metropolitan Statistical Area (MSA). Other banks operating in the AA are either branches of larger institutions with multiple offices or single location banks domiciled in/near the AA with significantly fewer assets. While management considers First Bank as its primary competitor, PNB has no similarly situated competitor in its AA.

DESCRIPTION OF ASSESSMENT AREA(S)

PNB has designated the contiguous counties of Pike, Lincoln, and Walthall, MS as its AA. This area is located in the southwest portion of Mississippi, with its southern border located adjacent to the state of Louisiana. Principal cities of the AA include McComb (Pike County), Brookhaven (Lincoln County), and Tylertown (Walthall County). With the exception of Pike County, the principal cities listed also serve as the seat of government for the listed county. McComb is the population and trade center of Pike County, but its county seat is Magnolia, located seven (7) miles south of the city.

The bank’s AA contains 17 census tracts, of which one (1) is designated as a low-income tract and another as a moderate-income tract. A total of 11 tracts are designated as middle-income tracts, while the remaining four (4) are considered upper income tracts. All of the AA’s middle-income tracts have been designated by the FFIEC as being distressed for poverty. In addition, three (3) of the 11 tracts which are located in Walthall County are also designated as underserved due to its rural nature.

Table 2 below illustrates select demographic data from PNB’s AA:

Table 2 - Demographic Information for PNB’s Assessment Area: Pike, Lincoln, and Walthall Counties, MS						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Census Tracts	17	5.88%	5.88%	64.71%	23.53%	0.00%
Population by Tract	90,716	6.00%	5.57%	66.06%	22.37%	0.00%
Owner-Occupied Housing by Tract	39,860	2.81%	5.08%	66.78%	25.33%	0.00%
Business by Tract	5,956	3.74%	6.45%	66.76%	23.05%	0.00%
Farms by Tract	323	0.93%	0.93%	69.66%	28.48%	0.00%
Family Distribution by Income Level	23,578	22.21%	16.39%	18.51%	42.89%	0.00%
Median Family Income		\$42,400	Median Housing Value			\$81,990
HUD Adjusted Median Family Income for 2015		\$44,800	Unemployment Rate			6.37%
Households Below Poverty Level		21.76%				
2015 HUD updated MFI						
(*) The NA category consists of Tracts that have not been assigned an income classification.						

Source: CRA Whiz data

The United States Office of Housing and Urban Development’s (HUD) updated 2015 non-MSA median family income for the state of Mississippi was \$44,800. Income classifications are listed in Table 3.

Table 3 – Family Income Categories – Pike, Lincoln, and Walthall Counties, MS			
Low	Moderate	Middle	Upper
<\$22,399	\$22,400 – \$35,849	\$35,850 - \$53,759	>\$53,760

The economy of the AA is considered stable, with little growth noted in most sectors other than retail. Major drivers of the AAs economy include agriculture, timber production, wholesale distribution, medical services, government, and retail. Major AA employers include Sanderson Farms, Inc. (poultry processing/agriculture), Walmart Distribution Center (retail distribution), Southwest Mississippi Regional Medical Center (medical services), Delphi Automotive (automotive parts manufacturing), McLane Southern (grocery distribution), and the school districts of the cities of McComb and Brookhaven, and Walthall County (government/education). In addition, a sizeable number of AA residents are employed in offshore and land based oil exploration. This group has experienced a high rate of unemployment over the past year due to the lower oil prices, which has negatively affected domestic production. However, overall unemployment in the area is considered moderate. As of November 2015, the average unemployment rate of the AA (6.4 percent) was higher than both that of the United States (4.8 percent) and the state of Mississippi (5.8 percent).

During our examination, we conducted an interview with an official representing government in Pike County, MS. Information received during this interview indicated a need for affordable housing, short-term loans for displaced oil production workers, and start-up capital loans for small businesses as the community’s most pressing credit

needs. The contact was complimentary of PNB’s actions to address the housing need as well as its involvement in overall community development.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan- to-Deposit Ratio

- PNB's average LTD ratio of 77.12 percent for the evaluation period is considered reasonable in light of the bank’s size, competition, market loan demand, and financial condition.

The 22 quarters that have elapsed since PNB's most recent CRA examination (September 2010) resulted in an average LTD ratio of 77.12 percent. This LTD ratio reflects a slight decrease from the 79.69 percent average noted in the bank’s 2010 CRA PE. The bank’s LTD ratio during the period ranged from a high of 82.89 percent at September 30, 2015 to a low of 70.50 percent at March 31, 2012. LTD ratio data as of December 31, 2015 was manually calculated and included in the average.

The OCC's LTD Data tool was utilized to compare PNB's LTD ratio to that of its AA competitors. However, data for comparison was limited to 21 quarters or up to September 31, 2015 as Call Report data as of December 31, 2015 was not available for its competitors. PNB's average LTD ratio of 76.88 percent for this period is being used for comparison.

Table 4 – Loan-to-Deposit Ratios of PNB’s Competitors Operating in AA (Pike, Lincoln, and Walthall Counties, MS)		
Institution	Assets (000s) (as of 9/30/15)	Average LTD Ratio
State Bank and Trust Co.	\$999,362	88.94%
Citizens Bank	\$396,705	82.74%
Regions Bank	\$123,859,106	79.07%
PNB	\$208,936	76.88%
Trustmark NB	\$12,388,869	74.77%
Bank of Franklin	\$131,324	62.91%
Bank of Brookhaven	\$150,353	56.86%
First Bank	\$416,345	52.99%
Woodforest NB	\$4,487,613	50.38%

Source: FFIEC Uniform Bank Performance Reports

PNB's average LTD ratio for the period is the fourth highest of the nine (9) banks operating in the AA. The three (3) banks with a higher LTD ratio are larger, older, or have a more extensive branching network. However, PNB's average LTD ratio dominates that of First Bank, its primary competitor. First Bank is approximately double the size of PNB and operates more offices, including at least one each in both the Hattiesburg, MS and Jackson, MS MSAs.

Lending in Assessment Area

- The substantial majority of loans by both number of loans and dollars originated by PNB during the period of review were extended to borrowers inside its AA.

Table 5 denotes the distribution of PNB's major loan products originated between January 1, 2013 and December 31, 2015. As reflected in the table, the vast majority of the number and dollars of residential RE refinances, commercial, and consumer loans extended during the review period were made within the AA. The number of home purchase loans were also substantially made within the AA. However, the dollar percentage of these loans were skewed with the inclusion of a \$480 thousand purchase loan made out of the AA (south Louisiana). This loan was significantly larger than the average home purchase loan size of \$52 thousand computed from our sample.

Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	13	86.67	2	13.33	15	682	57.17	511	42.83	1,193
Home Improvement	0	0.00	0	0.00	0	0	0.00	0	0.00	0
Refinance	7	87.50	1	12.50	8	502	87.30	73	12.70	575
Commercial	20	86.96	3	13.04	23	4,741	91.47	442	8.53	5,183
Totals	40	86.96	6	13.04	46	5,925	85.24	1,026	14.76	6,951

Source: OCC loan sample

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

- The penetration of loans made by PNB to borrowers of different income levels is reasonable for residential RE loan products. Lending to businesses of different sizes reflects reasonable penetration.

Residential RE

PNB does not code home improvement loans, so no volume or distribution of these loans were reflected for any income category in our sample.

As reflected in Table 6, lending to borrowers of different income levels for residential RE products is generally considered reasonable. The number of loans to moderate income families as a percentage of our residential sample exceeded the percentage of moderate income families in the AA.

While lending to low-income families was less than their percentage of composition of the bank's AA, the penetration of these products is considered reasonable as

approximately 17 percent of the AA’s families live below the poverty level. The high degree of families with stressed incomes makes it difficult for them to qualify for conventional residential RE loans.

Table 6 - Borrower Distribution of Residential RE Loans in AA (Pike, Lincoln and Walthall Counties, MS)								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	22.21	0.00	16.39	23.08	18.51	38.46	42.89	38.46
Home Improvement	22.21	0.00	16.39	0.00	18.51	0.00	42.89	0.00
Refinance	22.21	14.29	16.39	0.00	18.51	14.29	42.89	71.42

Source: OCC loan sample; U.S. Census data.

In an effort to make mortgages available to more of its community, PNB established a relationship with HomeFirst Mortgages (Jackson, MS) in 2014. HomeFirst originates mortgages in the secondary market for up to 30 years. These mortgages include conventional and government sponsored products, such as VA and Rural Housing Development loans. In over a year, HomeFirst originated only four (4) mortgages totaling \$506 thousand, including one to a moderate-income family for \$32 thousand. PNB discontinued its relationship with HomeFirst in 2015. Management is seeking another partner for secondary market mortgage originations and has made the search a strategic goal for 2016.

Commercial Lending

Lending to businesses of different sizes in the AA is reasonable. The penetration of loans to AA businesses (by dollars) with revenues less than \$1 million significantly exceeded their percentage of business composition in the AA. However, the distribution of loans to these businesses (by number of our sample) was slightly less than its demographic comparator.

Table 7 - Borrower Distribution of Loans to Businesses in AA (Pike, Lincoln and Walthall Counties, MS)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.85	3.66	19.49	100%
% of Bank Loans in AA by #	75.00	25.00	0.00	100%
% of Bank Loans in AA by \$	91.47	8.53	0.00	100%

Source: OCC loan sample; Dunn and Bradstreet data.

Geographic Distribution of Loans

- The geographic dispersion of residential and commercial loan products originated by PNB during the period of review is excellent, reflecting lending in all tracts.

Residential Lending

As reflected in Table 8, PNB’s distribution of residential RE loans is excellent in its AA, with the number of loans made in low and middle-income census tracts significantly exceeding the percentage of owner-occupied housing units in these respective tracts.

Table 8 - Geographic Distribution of Residential Real Estate Loans in AA (Pike, Lincoln and Walthall Counties, MS)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	2.81	5.00	5.08	10.00	66.78	35.00	25.33	15.00
Home Improvement	2.81	0.00	5.08	0.00	66.78	0.00	25.33	0.00
Refinance	2.81	5.00	5.08	5.00	66.78	20.00	25.33	5.00

Source: OCC loan sample; U.S. Census data.

Commercial Lending

PNB’s commercial lending to businesses in low and moderate-income tracts of its AA more than twice exceeded the AA demographic of businesses located in these tracts. Table 9 illustrates the distribution of this product.

Table 9 - Geographic Distribution of Loans to Businesses in AA (Pike, Lincoln and Walthall Counties, MS)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	3.74	15.00	6.45	15.00	66.76	45.00	23.05	25.00

Source: OCC loan sample; Dunn & Bradstreet data.

As reflected in Table 9, the majority of commercial loans in our sample were made in middle-income census tracts. Again, all of the middle-income census tracts in the bank’s AA are considered to be distressed for poverty or underserved due to rural location. Lending to businesses in these tracts aid in the stabilization of the AA by continuing to maintain and create employment opportunities.

Responses to Complaints

Neither the OCC's Customer Assistance Group (CAG) nor PNB's CRA Public File has been documented with any CRA related complaint from the public during our period of review.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's 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.

The OCC found no evidence of discrimination or other illegal practices inconsistent with helping to meet community credit needs.