



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**May 02, 2011**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Morris County National Bank of Naples  
Charter Number 7194**

**101 W L Dodson East  
Naples, TX 75568**

**Comptroller of the Currency  
Longview Field Office  
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.

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

Morris County National Bank (MCNB) has a satisfactory record of meeting community credit needs. This rating is based on the following:

- A reasonable loan-to-deposit ratio.
- A substantial majority of loans are extended to borrowers within the bank's assessment areas.
- A reasonable lending penetration to borrowers of different incomes and businesses of different sizes within the assessment area.

## **SCOPE OF EXAMINATION**

This Performance Evaluation (PE) is an assessment of Morris County National Bank's ability to meet the credit needs of the community in which it operates. The bank was evaluated under the Small Bank performance criteria. The procedures used include a lending test that evaluates the bank's record of meeting the credit needs of its assessment areas (AA) through its lending activities. Conclusions regarding the bank's lending performance are based on agriculture, consumer, and commercial loans originated from January 1, 2009 to March 31, 2011.

## **DESCRIPTION OF INSTITUTION**

Morris County National Bank (MCNB) is an \$88 million bank which is wholly owned by Morris County Bancshares, Inc. The bank is located at 101 W L Dodson East, Naples, Texas. In addition to the main office the bank has one full service branch located in Queen City, Texas. Automated teller machines (ATMs) are available in all locations. Furthermore, the bank has one ATM located in a convenience store in Omaha, Texas. As of March 31, 2011, loans totaled \$48 million and represented 55% of the bank's total assets. Although 1-4 family real estate loans account for 30% of the loan portfolio, a 1-4 family sample was not performed due to the low amount of originations during the assessment period. The following chart reflects the distribution of the bank's loan portfolio as of March 31, 2011.

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
1-4 Family Real Estate	14,428	29.98
Commercial Real Estate	8,244	17.14
Commercial	6,334	13.17
Agriculture	10,267	21.34
Consumer	8,089	16.81
Other	749	1.56
<b>Total Loans</b>	<b>48,111</b>	<b>100.00</b>

There are no legal impediments or other factors that inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA examination dated January 11, 2007.

## DESCRIPTION OF ASSESSMENT AREA

The Board has designated Morris County, Cass County and census tract 9504 in Titus County as the bank's assessment area. The assessment area includes no low or moderate-income tracts, with all tracts designated as middle-income areas. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude any low- or moderate-income geographies.

The following table provides a description of the bank's assessment.

<b>Demographics and Economic Characteristics of Assessment Area</b>	
<i>Population</i>	
Number of Families	13,727
Number of Households	18,956
<i>Geographies</i>	
Number of Census Tracts	11
% Low-Income Census Tracts	0%
% Moderate-Income Census Tracts	0%
% Middle-Income Census Tracts	100%
% Upper-Income Census Tracts	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2010 HUD-Adjusted MFI	\$46,500
<i>Economic Indicators</i>	
Unemployment Rate	3.12%
2005 Median Housing Value	\$50,293
% of Households Below Poverty Level	18.38%

*Source: 2000 Census Data*

The bank's designated assessment area has a total population of 47,878. The distribution of households by income level, regardless of census tract location, consists of the following: 27.28% are low income, 15.57% are moderate income, 17.40% are middle income, and 39.74% are upper income. Major employers in the assessment area include U.S Steel, International Paper Company, Wal-Mart, and the Texas Department of Transportation. Additionally, there are several retail, educational and medical facilities. Competition in the assessment area is strong

with several branches of other banks and credit unions located in the area. The local economic conditions are weak. The unemployment rate for Naples, TX was 11.8% as of March 2011.

A contact with a local government office in Naples revealed the primary community credit needs for the assessment area are residential mortgages and consumer loans.

## 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 majority of loans are originated within the bank’s assessment area. Additionally, the distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio of MCNB is reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly loan-to-deposit ratio has averaged 61.85% since the prior CRA examination. The average loan-to-deposit ratio of all banks within the assessment area, regardless of size, for the same time period, was 83.04%.

Institution	Assets (000s) (as of 12/31/10)	Average LTD Ratio
Morris County National Bank, Naples	86,000	61.85%
Texas Heritage National Bank	115,000	90.05%
Lonestar State Bank	37,000	86.35%
Texana Bank	120,000	73.92%
American National Bank	99,000	81.86%

### Lending in Assessment Area

A substantial majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 20 consumer loans, 20 agriculture loans and 20 commercial which originated since January 2009. The sample revealed that 80 percent of loans were made in the assessment area by number and 91 percent by dollar amount. The following table shows a break down by category.

<b>Table 1 - Lending in Morris County National Bank of Naples AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	14	70.00	6	30.00	20	181	84.67	33	15.33	214
Agricultural	17	85.00	3	15.00	20	924	98.49	14	1.51	938
Commercial	17	85.00	3	15.00	20	2,138	89.14	261	10.86	2,399
Totals	48	80.00	12	20.00	60	3,243	91.34	308	8.66	3,551

Source: Loan sample

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

The distribution of loans within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes.

The distribution of loans to consumers reflects a reasonable penetration among borrowers of different income levels given the economic factors of the assessment area. While the distribution of loans to low-income borrowers is below that of the AA’s demographics, the distribution of loans to moderate-income borrowers exceeds the AA’s demographics. The unemployment rate of 11.8% and the fact that 18% of households are below poverty has impacted consumers’ ability to qualify for loans. The following table provides more information regarding the consumer lending distribution among borrowers of different income levels.

<b>Borrower Distribution of Consumer Loans in Morris County National Bank of Naples AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	27.28	16.67	15.57	16.67	17.40	23.33	39.74	43.33

Source: Loan sample; 2000 Census Data

The distribution of loans to businesses and farms reflects an excellent penetration. Our sample of business loans inside the assessment area revealed a substantial majority of the bank’s commercial loans were to businesses with revenues less than \$1 million. Eighty percent of the loans made and purchased were made to small businesses.

<b>Borrower Distribution of Loans to Businesses In Morris County National Bank of Naples AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75.92	2.40	21.68	100
% of Bank Loans in AA by #	80.00	10.00	10.00	100
% of Bank Loans in AA by \$	56.97	34.16	8.89	100

Source: Loan sample; 2000 Census Data

Our sample of loans to farms in the assessment area revealed ninety-five percent of originations by number and ninety-eight percent by dollar were to farms with revenues less than \$1 million.

<b>Borrower Distribution of Loans to Farms in Morris County National Bank of Naples AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	97.08	1.46	1.46	100
% of Bank Loans in AA by #	95.00	0.00	5.00	100
% of Bank Loans in AA by \$	97.83	0.00	2.17	100

Source: Loan sample; 2000 census Data

### **Geographic Distribution of Loans**

All census tracts within the bank's assessment area are middle-income. There are no low- or moderate-income census tracts in the assessment area. Therefore, we did not complete a review of the bank's geographic distribution of loans.

### **Responses to Complaints**

Management has not received any written complaints related to CRA performance since the prior CRA examination.

### **Fair Lending or Other Illegal Credit Practices Review**

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