



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

September 15, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Peoples National Bank
Charter Number 21944**

**35 South Plaza
Paris, TX 75460**

**Comptroller of the Currency
ADC Michael K. Hughes - Dallas North
17300 Dallas Parkway, Suite 2020
Dallas, TX 75248**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The Peoples National Bank (PNB) has a satisfactory record of meeting community credit needs. This rating is based upon the following:

- A substantial majority of loans sampled, representing 86% of the number and 73% of the dollar volume, originated within the bank's assessment area;
- The geographic distribution of the sampled consumer loans is good and sampled residential real estate, commercial real estate and commercial loans reflects a reasonable dispersion to moderate-income census tracts within the assessment area;
- The distribution of sampled consumer loans to borrowers reflects an excellent penetration among households defined as low- and moderate-income; and
- An adequate penetration of the commercial loans sampled was made to businesses with revenues of less than \$1 million.

DESCRIPTION OF INSTITUTION

PNB is a \$104 million community bank located in Paris, Texas. PNB has three affiliates: (1) Peoples National Mortgage Corporation is inactive and continues to service a declining pool of sold mortgages; (2) Peoples Asset Management is inactive and previously owned a computer lease that generated income tax losses; and (3) Paris Service Corporation is an active entity formed to hold Other Real Estate during foreclosure. PNB is wholly owned by Texas Peoples National Bancshares, Inc., a one-bank holding company located in Paris, Texas with total assets of approximately \$100 million. PNB serves Lamar County through three banking locations: (1) the Main branch at 35 South Plaza, (2) the Collegiate (Drive-Thru) branch at 2805 Lamar Avenue, and (3) the Wal-Mart branch located in the Wal-Mart Super Center at 3855 Lamar Avenue.

The Drive-Thru branch is the only location with drive-up facilities. The two branch locations provide extended weekday and Saturday hours. The bank also operates three automated teller machines (ATM) in the city of Paris: one at each branch location and the third located at Kimberly-Clark Corporation, a large manufacturing plant in Paris. In addition, PNB offers telephone banking through its Touch Tone Banking System.

PNB is a full service institution, providing various deposit and loan products. Management's lending focus is one-to-four family residential mortgage loans, small business lending, and consumer loans. In 2003, the bank has allocated \$500,000 to fund home mortgage loans originated under a City of Paris buyer assistance program for low-to-moderate income borrowers funded by the State of Texas. The program provides for up to 100% financing of the purchase price and closing costs. PNB has made loans under this program since 2000 and estimates the

volume of funded loans at \$235 thousand. The bank also provides funding for housing rehabilitation loans, which are repaid from federal grants administered by the City of Paris.

The following table portrays the principal loan mix of PNB:

Loan Category	\$ (000)	%
Residential Real Estate	34,731	50
Commercial	11,117	16
Commercial Real Estate	10,721	15
Consumer	7,986	12
Farmland	2,300	3
Construction & Development	1,297	2
Agricultural	763	1
Lease Financing Receivables	269	<1
Other Loans	130	<1
Total	\$69,314	100%

PNB was rated “Satisfactory” in its previous CRA public evaluation dated February 23, 1998. The bank continues to operate without any financial or legal obstacles that affect its ability to meet community credit needs.

DESCRIPTION OF LAMAR COUNTY

PNB’s assessment area is Lamar County. The bank’s assessment area is reasonable and meets the requirements of the regulatory guidelines and does not arbitrarily exclude any low-or moderate-income areas. The following table reflects the demographics for the assessment area (AA):

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	12,448
Number of Households	16,807
<i>Geographies</i>	
Number of Census Tracts	10
# - % Low-Income Census Tracts	0 – 0%
# - % Moderate-Income Census Tracts	3 – 30%
# - % Middle-Income Census Tracts	5 – 50%
# - % Upper-Income Census Tracts	2 – 20%
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$24,585
1998 HUD-Adjusted MFI	\$32,100
1999 HUD-Adjusted MFI	\$33,900
2000 HUD-Adjusted MFI	\$34,700
2001 HUD-Adjusted MFI	\$35,800
2002 HUD-Adjusted MFI	\$36,100
<i>Economic Indicators</i>	
Unemployment Rate	7.2*
2002 Median Housing Value	\$38,238
% of Households on Social Security	35%
% of Households Below Poverty Level	21%
% of Households on Retirement	16%

*Based on 2002 Bureau of Labor Statistics (BLS) Data for Lamar County, TX

The total occupied housing units are 88% with owner-occupied housing at 60%, rental-occupied housing at 27%, and vacant housing units are at 11%.

Lamar County is considered a highly competitive banking environment with nine financial institutions present, consisting of other national banks, branches of larger national and state banks, and a savings and loans institution. In addition, four employee credit unions operate within the assessment area. The economy of the area is stable and diverse. The largest employers in the bank's assessment area are the Kimberly-Clark Corporation, Campbell Soup Supply Company, Turner International Piping Systems, Christus St. Joseph's Health System, and Lakes Regional MHMR Center-Paris. The largest industries are manufacturing and banking.

The credit needs of the community were determined through interviews with individuals associated with the city of Paris and Paris Living, A Community Development Corporation. The credit needs mentioned includes low interest rate home mortgage loans, down payment assistance, and small business loans. The community contacts also indicated area financial institutions are very cooperative and are diligent in trying to meet the community's credit needs.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The June 30, 2003 Call Report indicates that the majority of PNB's loan portfolio consists of residential real estate loans. The next largest distribution of loans is commercial business loans.

As part of our analysis, we also took samples of commercial real estate loans and consumer loans. These sampled loans originated between March 1, 1998, and December 31, 2002. We did not select any loans originated since January 1, 2003 because 2000 Census information was not available.

Overall, PNB is meeting the standards of satisfactory performance. The bank's strengths are lending within its assessment area, consumer loans made to low- and moderate-income borrowers, and extensive lending to small businesses with annual revenues of less than \$1 million.

Loan-to-Deposit Ratio

PNB's average loan-to-deposit (LTD) ratio is 94%. As of June 30, 2003, PNB had a "net loans to total assets" ratio of 87%. Given the bank's size, financial condition, and assessment area credit needs, the bank exceeds the standard for satisfactory performance.

The 22-quarter average LTD ratio is strong when compared to other financial institutions within the assessment area. Information for these financial institutions is detailed in the following table:

Institution	Assets ('000's) As of 6-30-2003	Average LTD Ratio
First Federal Community Bank	288,344	109%
<i>Peoples National Bank</i>	<i>100,592</i>	<i>94%</i>
National Peer Group	100,000 – 300,000	72%
Lamar National Bank	95,981	62%
The Liberty National Bank in Paris	234,836	33%

PNB was actively involved in payday lending from first quarter 2001 through second quarter 2003. PNB's 22-quarter average LTD ratio was elevated by this activity. The adjusted LTD ratio, excluding payday lending, is 87%, which also exceeds the standard for satisfactory performance.

Lending in Assessment Area

Based on our review of PNB's lending patterns, the bank exceeds the standards of satisfactory performance. Our sample of 20 residential real estate loans, 20 commercial loans, 20 commercial real estate loans, and 20 consumer installment loans revealed 86% were within the bank's assessment area, totaling \$3.5 million or 73%.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential RE	16	80	1,270	87	4	20	216	13
Commercial	18	90	1,220	97	2	10	34	3
Commercial RE	15	75	787	43	5	25	1,038	57
Consumer	20	100	246	100	0	0	0	0
Total Reviewed	69	86%	\$3,523	73%	11	14%	\$1,288	27%

Based on management's analysis of the loan portfolio as of June 30, 2003, 93% of the number and 91% of the dollar volume were made within the assessment area.

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

The bank meets the standard for satisfactory performance in lending to borrowers of different incomes and to businesses of different sizes.

We reviewed a sample of 20 consumer installment loans made within the bank's assessment area. The bank's record of consumer installment lending to low- and moderate-income borrowers is excellent as the following table illustrates:

CONSUMER INSTALLMENT								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	26%		13%		16%		45%	
LOANS	% of Number	% of Amount						
Total	35	16	45	59	20	24	0	0

Consumer loans sampled = 20 loans totaling \$246 thousand

PNB has originated an adequate number of loans to businesses with revenues of less than \$1.0 million. We reviewed a sample of 20 commercial loans totaling \$1.3 million originated within the bank's assessment area. Of the loans sampled, 18 were made to businesses with revenues of less than \$1.0 million. These loans totaled \$1.2 million. The following table illustrates the bank's lending penetration to businesses of different sizes:

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES			
Business Revenues	≤\$1,000,000	>\$1,000,000	Unreported
% of AA Businesses	76%	4%	19%
% of Bank Loans in AA #	90%	10%	0
% of Bank Loans in AA \$	94%	6%	0

Finally, we reviewed a sample of 20 residential real estate loans originated within the bank's assessment area. PNB's home purchase lending to low-income borrowers is small in comparison

to the percentage of low-income families within the assessment area. However, the bank’s penetration to moderate-income borrowers is excellent. Overall, the bank’s penetration to low and moderate-income borrowers is satisfactory when compared to the percentage of low- and moderate-income families within the assessment area as seen in the following table:

RESIDENTIAL LOANS								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21%		15%		20%		44%	
LOANS by TYPE	% of Number	% of Amount						
Total	10	6	20	6	0	0	70	88

The small penetration of home purchase loans to low-income borrowers is attributed to a substantial portion of the bank’s assessment area being on a fixed-income. The financial requirements of closing costs and down payments are more feasible for middle- and upper-income borrowers when purchasing a home. Typically, borrowers with higher incomes are able to produce these funds, which many lower income borrowers are unable to do.

Geographic Distribution of Loans

PNB has a reasonable dispersion of loans in its assessment area. The number of residential loans made to moderate-income census tracts is adequate; however the dollar volume is low in comparison. The variance is attributed to the lower cost of housing in the moderate census tracts as detailed in the following table:

RESIDENTIAL LOANS						
Census Tract Income Level	MODERATE		MIDDLE		UPPER	
%of AA Owner Occupied	21%		53%		26%	
Median Housing Value	23,180		36,155		61,144	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Residential RE	15	8	50	43	35	49

Residential RE loans sampled = 20 loans totaling \$1.6 million.

The dollar volume of general commercial loans made to the moderate-income census tracts is good in comparison to the percentage of businesses in the assessment area. The dollar volume for commercial real estate loans made to the moderate-income census tracts is low in comparison. Management attributes the lower dollar volume of commercial real estate lending to the very limited new construction occurring in the moderate-income tracts. These areas represent the portions of the city that are considered fully developed.

COMMERCIAL LOANS						
Census Tract Income Level	MODERATE		MIDDLE		UPPER	
% of AA Businesses	37		33		30	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
General Commercial	30	40	40	40	30	20
Commercial RE	15	5	55	62	30	32
Totals	23	21	48	52	30	27

General Commercial loans sampled = 20 loans totaling \$1.3 million

Commercial RE loans samples = 20 loans totaling \$1.5 million

The number and dollar volume of the sampled consumer loans made within the moderate-income census tracts is good in comparison to the percentage of households in the assessment area as can be seen in the following table:

CONSUMER						
Census Tract Income Level	MODERATE		MIDDLE		UPPER	
% of AA Households	27%		48%		25%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	25	24	65	74	10	2

Consumer loans sampled = 20 loans totaling \$246 thousand

Qualified Investments and Community Development Loans and Services

Community development means affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

The bank is active in funding the Paris Economic Development Corporation, Inc. During 2003 the bank has committed in funding a pro-rata share (\$650 thousand) of two loans totaling \$3 million for the development of a new local industrial park and the related business expansion.

PNB actively donates to various civic and community organizations in the city of Paris. These groups include the Greater Paris Development Foundation, the Paris Habitat for Humanity, and Paris Living, A Community Development Corporation.

In addition, directors, officers, and staff of PNB are actively involved in 31 various civic and community organization including, but not limited to the following: Lamar County Chamber of Commerce, Keep Paris Beautiful Committee, and Paris Economic Development Corporation, Inc.

Responses to Complaints

PNB has not received any CRA related complaints during this evaluation period.

Fair Lending Review

An analysis of five years public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.