



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

April 11, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Liberty National Bank In Paris
Charter Number 13541**

**305 Lamar Avenue
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 Liberty National Bank in Paris (LNB) has a satisfactory record of meeting community credit needs. This rating is based upon the following:

- A substantial majority of loans sampled, representing 88% of the number and 81% of the dollar volume, originated within the bank's assessment area;
- The geographic distribution of the sampled residential loans and commercial loans reflects a good 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

LNB is a \$234 million community bank located in Paris, Texas. It is wholly owned by Paris Bancshares, Inc., a one-bank holding company. Paris Bancshares, Inc. has total assets of approximately \$48 million. LNB serves Lamar County through three banking locations: (1) the main office at 305 Lamar Avenue, (2) a branch at 140 North Collegiate, and (3) another branch located in Super 1 Foods at 3515 Lamar Avenue.

All locations have drive-up facilities with the exception of the branch located in Super 1 Foods. Each location provides extended weekday hours. The branch located in Super 1 Foods also provides Saturday hours. The bank also operates four automated teller machines (ATM) throughout the city of Paris: one at each branch location and the fourth located at 1929 Bonham Street. In addition, LNB offers telephone banking through its Express Banking System.

LNB is a full service institution, providing various deposit and loan products. Management's lending focus is one-to-four family residential mortgage loans and consumer loans. One of the residential products offered is a 90%, low cost home improvement loan. Also, LNB has received funds from The Federal Home Loan Bank of Dallas's Homebuyer Equity Leverage Partnership (HELP) Program. These monies provide matching down payment assistance to low- and moderate-income borrowers. As of the date of this evaluation, the bank has \$37 thousand available from the HELP Program.

The following table portrays the principal loan mix of LNB:

Loan Category	\$ (000)	%
Residential Real Estate	36,118	55
Consumer	11,130	17
Commercial Real Estate	8,812	14
Commercial	5,729	9
Farmland	2,433	4
Construction & Development	787	1
Obligations of states and political subdivision in the U.S.	200	<1
Other Loans	115	<1
Total	\$65,324	100%

LNB was rated “Satisfactory” in its previous CRA public evaluation dated October 8, 1997. The bank continues to operate without any financial or legal obstacles that affect its ability to meet community credit needs.

DESCRIPTION OF LAMAR COUNTY

LNB’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
1997 HUD-Adjusted MFI	\$31,500
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	7.3*
2002 Median Housing Value	\$38,053
% of Households on Social Security	35%
% of Households Below Poverty Level	21%
% of Households on Retirement	16%

*Based on 2001 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 December 31, 2002 Call Report indicates that the majority of LNB's loan portfolio consists of residential real estate loans. For our analysis, we segregated the residential real estate loans into two groups: (1) home purchase and (2) home improvement and home equity loans. The next largest distribution of loans is consumer installment. As part of our analysis, we also took a sample of business loans. These sampled loans originated between October 8, 1997, and December 31, 2002. We did not select any loans originated from January 1, 2003 to April 14, 2003 because 2000 Census information was not available.

Overall, LNB is meeting the standards of satisfactory performance. The bank's strengths are lending within its assessment area, and home improvement, home equity and consumer loans made to low- and moderate-income borrowers.

Lending in Assessment Area

Based on our review of LNB's lending patterns, the bank exceeds the standards of satisfactory performance. Our sample of 20 home purchase loans, 20 home improvement and home equity loans, 20 consumer installment loans, and 20 commercial loans revealed 88% were within the bank's assessment area, totaling \$3.9 million or 81%.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Home purchase	17	85	744	92	3	15	63	8
Home improvement - Home equity	19	95	210	95	1	5	10	5
Consumer	18	90	71	92	2	10	6	8
Commercial	16	80	2,849	77	4	20	845	23
Total Reviewed	70	88%	\$3,874	81%	10	12%	\$924	19%

Based on management's analysis of the loan portfolio as of March 31, 2003, 93% of the number and 91% of the dollar volume were made within the assessment area.

Geographic Distribution of Loans

LNB has a reasonable dispersion of loans in its assessment area. The number and dollar volume of residential loans (both home purchase and home improvement/equity) made to moderate-income census tracts is excellent as detailed in the following table:

RESIDENTIAL LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied	0%		21%		53%		26%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	0	0	30	26	30	19	40	54
Home Improvement /Home Equity	0	0	65	69	35	31	0	0

Home purchase sample = 20 loans totaling \$968 thousand

Home improvement/Home equity sample = 20 loans totaling \$220 thousand

The number of commercial loans made to the moderate-income census tracts is also good in comparison to the percentage of businesses in the assessment area.

COMMERCIAL LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses	0		38		32		30	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0	0	50	61	35	28	15	11

Commercial loans sampled = 20 loans totaling \$3.0 million

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

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	0%		27%		48%		25%	
LOANS	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Totals	0	0	10	7	80	78	10	15

Consumer loans sampled = 20 loans totaling \$76 thousand

However, management's analysis of the consumer loan portfolio as of March 31, 2003 illustrates 19% of the number and 14% of the dollar volume were made to moderate-income census tracts. These ratios present a reasonable distribution of loans made to moderate-income census tracts.

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 good 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	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Total	30	25	20	9	15	16	35	50

The low “amount” percentage is small in comparison to the percentage of moderate-income households. However, this is due to the number of loans the bank makes that are low in dollar amount. For example, 29% of the loans originated between January 1, 1998, and December 31, 2002, had dollar volumes of \$2,000 or less totaling \$5 million or 3% of the bank’s total loan volume. Bank management has historically made loans as low as \$500 in an effort to meet customer credit needs.

Moreover, LNB 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 \$3.0 million originated within the bank’s assessment area. Of the loans sampled, 16 were made to businesses with revenues of less than \$1.0 million. These loans totaled \$1.7 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
% of AA Businesses	95%	5%
% of Bank Loans in AA #	80%	20%
% of Bank Loans in AA \$	55%	45%

Finally, we reviewed a sample of 20 home purchase and 20 home improvement and home equity loans originated within the bank’s assessment area. LNB’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 of home improvement and home equity lending to low- and 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	22%		15%		19%		44%	
LOANS by TYPE	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Home Purchase	10	5	10	6	30	18	50	71
Home Improvement /Home Equity	30	35	35	37	25	20	10	8
Total	20	11	23	12	27	18	30	59

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.

As mentioned earlier, LNB has received funds from the HELP Program to provide down payment assistance to low- and moderate-income borrowers. Bank management has begun to market the availability of this type of credit to members of the community. Once families are aware of this program, the penetration of home purchase loans to low-income families may improve.

Loan-to-Deposit Ratio

LNB's average loan-to-deposit (LTD) ratio is 33%. As of December 31, 2002, LNB had a "net loans to total assets" ratio of 34%. Given the bank's size, financial condition, and assessment area credit needs, the bank meets the standard for satisfactory performance.

The 21-quarter average LTD ratio does not appear favorable when first 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 12-31-2002	Average LTD Ratio
First Federal Community Bank	279,325	108%
Peoples National Bank	106,619	95%
National Peer Group	100,000 – 300,000	72%
Lamar National Bank	93,303	62%
<i>The Liberty National Bank in Paris</i>	233,816	33%

LNB's LTD ratio is low in comparison because of its unique deposit base. The bank's total deposits consist of a disproportional high level of public fund accounts, deposits from the bank's holding company, a large volume of significant depositors with no corresponding credit needs, and deposits remaining from LNB's 2000 acquisition of a Guaranty Bank branch. For example, as of December 31, 2002, LNB customers with deposit relationships exceeding \$200,000 represent a significant 35% of the bank's deposit base, and only a very minor percentage of these customers have a related borrowing relationship. Many of these customers have deposits at LNB because of its financial strength and stability.

Adjusting for these unique attributes produced an adjusted December 31, 2002 LTD ratio of 62%, a level more comparable with its peers. The OCC notes the LTD ratio has steadily improved since the Guaranty Bank branch acquisition, from 26% to 34%. Considering these factors, LNB's LTD ratio is reasonable in comparison to other institutions within the assessment area.

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.

During this evaluation period, LNB provided a total of \$120,000 in donations to various 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, LNB made a total of 19 community development loans totaling \$5.2 million or 8% of the bank's total loan portfolio. In addition, members of LNB's management team are actively involved in various civic and community organization including, but not limited to the following: Paris Habitat for Humanity, Keep Paris Beautiful Committee, and Paris Living, A Community Development Corporation.

Responses to Complaints

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

Fair Lending Review

An analysis of six 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.