



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 11, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**201 East Main Street
Naples, TX 75568**

**Comptroller of the Currency
ADC - Longview (NE Texas & NW Louisiana)
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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

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

- The bank's loan-to-deposit ratio is reasonable when compared to other area banks.
- A majority of the bank's loans are extended within its assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels.

DESCRIPTION OF INSTITUTION

Morris County National Bank is a \$63 million bank which is wholly owned by Morris County Bankshares. The bank is located at 201 Main Street, Naples, Texas and has a full service branch scheduled to open during the second quarter 2002 at 401 N. Highway 59 in Queen City, Texas. As of December 31, 2001, loans totaled \$40 million and represented 67% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio.

Loan Category	\$ (000)	%
Commercial Real Estate Loans	8,541	21.43
Commercial Loans	9,673	24.27
Residential Real Estate Loans	9,591	24.06
Consumer Loans	12,052	30.24
Total	39,857	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 during the prior CRA Examination dated July 25, 1997.

DESCRIPTION OF ASSESSMENT AREA

The Board has designated Morris County and specific block numbering areas (BNA) and census tracts (CT) located in Titus, Cass, and Bowie Counties as its assessment area. These BNAs make up a contiguous assessment area and include BNAs 9501 and 9502 in Morris County, 9504 in Titus County, 9502 in Cass County and census tract 117 in Bowie County. These five tracts are all middle income. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low and moderate-income geographies.

The following table provides a description of the bank's assessment area based on census data and 2001 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	5,416
Number of Households	7,084
<i>Geographies</i>	
Number of Census Tracts/BNA	5
% Low-Income Census Tracts/BNA	0
% Moderate-Income Census Tracts/BNA	0
% Middle-Income Census Tracts/BNA	5
% Upper-Income Census Tracts/BNA	0
<i>Median Family Income (MFI)</i>	
1990 MFI for AA	\$25,285
2000 HUD-Adjusted MFI	\$36,720
<i>Economic Indicators</i>	
Unemployment Rate	3.41%
2000 Median Housing Value	\$34,657
% of Households Below Poverty Level	21.82%

The bank's designated assessment area has a total population of 18,751. The distribution of families by income level, regardless of census tract location, consists of the following: 21.45% are low income, 18.89% are moderate income, 20.66% are middle income, and 39.00% are upper income. Major employers in Morris County include Lone Star Steel, area school districts, North East Texas Community College, and Custom Manufacturing. While there are no other financial institutions in Naples, competition throughout the assessment area is considered strong with banks and bank branches located in most of the area communities. The local economy is considered stable with an unemployment rate of 3.41%.

Contacts with a local business organization and government official in Naples revealed the primary community credit needs for the assessment area are consumer loans and residential mortgages. One of the organizations also noted the lack of available, affordable housing in Morris County.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio of Morris County National Bank is reasonable given the bank's size, financial condition and assessment area credit needs. As of December 31, 2001, the bank's quarterly average loan-to-deposit ratio was 56.55% since the prior CRA examination in July of 1997. The average loan-to-deposit ratio of banks within the assessment area for the same time

period was 63.68%.

Institution	Assets (000s)	Average LTD Ratio
Morris County National Bank, Naples	63,000	56.55%
National Bank of Daingerfield	59,000	61.08%
First National Bank, Hughes Springs	139,000	68.76%
First National Bank, Linden	48,000	43.25%
American National Bank, Mt. Pleasant	71,000	82.73%
First State Bank, Avinger	17,000	63.86%
Lone Star State Bank, Lone Star	27,000	69.53%

Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 24 residential mortgages, 26 commercial loans and 28 consumer loans which originated since January 2000. This sample reflected that approximately 79% of the number of loans and 68% of the dollar amount of loans in our sample were extended within the bank's assessment area. The breakdown by loan category is illustrated in the following table.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	20	83.33	963	56.45	4	16.67	743	43.55
Consumer	22	78.57	109	69.34	6	21.43	48	30.66
Commercial	20	76.92	2,778	72.43	6	23.08	1,057	27.57
Total Reviewed	62	79.49	3,850	67.56	16	20.51	1,848	32.44

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. Morris County National Bank's primary product lines are commercial and commercial real estate, residential and consumer loans. Our sample of loans inside the assessment area included 20 residential loans totaling \$963 thousand and 22 consumer loans totaling \$109 thousand. The distribution of home purchase and consumer loans generally approximates the income characteristics of the assessment area. While lending to low income borrowers for residential purposes is lower than the demographics of the assessment area, 21.8% of the assessment area families are below poverty level. Additionally, there is a lack of affordable housing available in the assessment area. The bank's distribution to moderate-income families more closely matches the demographics of the assessment area. Additionally, the bank's consumer lending reflects a reasonable distribution to all income levels.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	21.5		18.9		20.7		39.0	
	% of Number	% of Amount						
	5.00	3.27	20.00	11.43	25.00	18.88	50.00	66.42

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	26.9		14.7		17.5		40.8	
	% of Number	% of Amount						
	22.73	20.57	27.27	15.68	27.27	25.54	22.73	38.21

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 338 businesses in the assessment area with revenues less than \$1 million. This number represents 86.22% of all businesses within the assessment area. Our sample of commercial loans inside the assessment area included 20 loans totaling \$2.78 million. The distribution of commercial loans generally approximates the income characteristics of the assessment area.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	86.22	7.91
% of Bank Loans in AA #	70.00	30.00
% of Bank Loans in AA \$	50.79	49.21

Geographic Distribution of Loans

A geographic analysis of lending activity within the bank's assessment area was not performed. There are no low or moderate income geographies located in the bank's assessment area and, therefore, an analysis would not be meaningful.

Responses to Complaints

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

Fair Lending Review

An analysis of 1998-2001 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. The latest comprehensive fair lending exam was performed in 1997.