



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 01, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Picayune
Charter Number 14592

121 E. Canal Street
Picayune, MS 39466

Office of the Comptroller of the Currency

Birmingham Field Office
100 Concourse Parkway Suite 240
Hoover, AL. 35244-1870

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.

- The level and trend of the bank's loan-to-deposit (LTD) ratio is reasonable.
- The majority of loans are made within the bank's assessment area (AA.)
- The distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable.
- The geographic distribution of loans across different income census tracts is reasonable.

SCOPE OF THE EXAMINATION

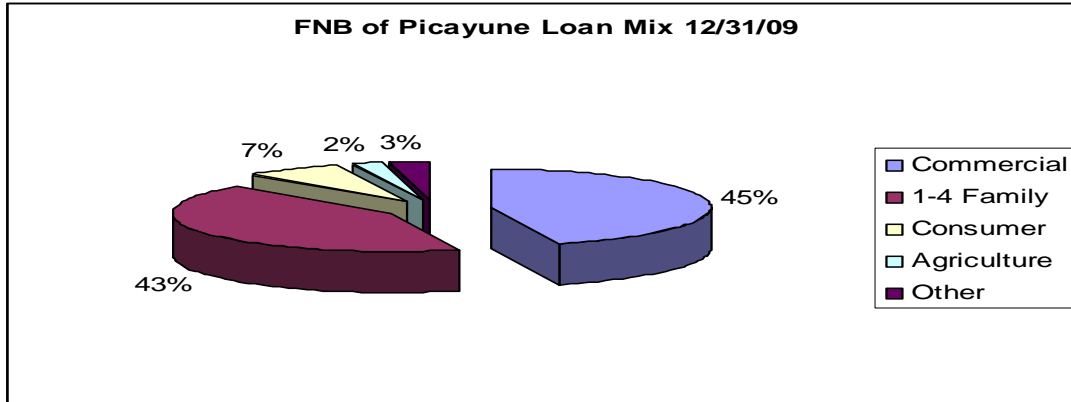
First National Bank of Picayune (FNBP) was evaluated under the Small Bank examination procedures, which is comprised of a lending test. The lending test evaluates the bank's record of meeting the credit needs of its assessment areas (AAs) through its lending activities. The bank's previous CRA rating was "Outstanding" as of September 2, 2003. The evaluation period for this performance report is September 3, 2003 through March 1, 2010.

FNBP's primary loan products are home and business loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The HMDA data for years 2008 and 2009 was evaluated and is representative of the bank's lending strategy since the last CRA examination. The HMDA data was tested and found to be reliable. To evaluate the bank's business lending performance, we selected a sample of business loans made from January 1, 2008 through December 31, 2009.

DESCRIPTION OF INSTITUTION

First National Bank of Picayune (FNBP) is a \$205 million intrastate bank headquartered in Picayune, MS, with branch locations in Pearl River and Stone Counties, MS. In addition to the main office, four other branches are located in Pearl River County, MS, with the remaining branch in Stone County, MS. The bank has not opened any new branches since the last CRA examination. Five of the six full-service branches have deposit-taking ATMs. The Poplarville and North Picayune branches are located in Distressed Non-metropolitan Middle-Income Geographies. There have not been any significant changes to FNBP's corporate structure, including merger or acquisition activities, since the last CRA examination. FNBP is wholly owned by First National Corporation of Picayune, a one-bank holding company. FNBP provides many types of banking services, including business, agricultural, residential, and personal lending, as well as deposit, funds transfer, and safe deposit services. No legal or financial factors impede FNBP's ability to meet the credit needs within the assessment area.

FNBP originated 3,079 loans with original balances of approximately \$160 million between January 1, 2007 and December 31, 2009. The bank's loan mix based on the December 31, 2009 Call Report is as follows:



DESCRIPTION OF ASSESSMENT AREAS

FNBP has two assessment areas located in Southwest Mississippi: Pearl River County and Stone County. Stone County is located within the Gulfport-Biloxi MSA. Both AAs meet regulatory requirements and consist of complete political subdivisions that do not arbitrarily exclude low- and moderate- income geographies. Each AA is described below.

Pearl River County Assessment Area

The Pearl River County, MS AA consists of eight census tracts (CTs) with a total population of 48,621. Five branches, including the main office, are located in the Pearl River AA. Six other financial institutions serve the area. As of June 30, 2009, FNBP held 25% of the Pearl River market share for deposits. FNBP’s primary competitor in the AA is Hancock Bank, who holds nearly 43% of the Pearl River deposit market.

The average median family income for the Pearl River County AA is \$35,676 with a HUD adjusted median family income for 2009 of \$41,900. Table 1A below shows the demographic makeup of the AA by census tract (CT) and income level.

Table 1A – Pearl River County AA Demographics				
Income Level	# of CTs	% of CTs	# of Families	% of Families
Low	0	0	0	0.00%
Moderate	1	12.5%	1,946	14.18%
Middle	6	75%	8,264	60.21%
Upper	1	12.5%	3,516	25.62%
Total	8	100.00%	13,726	100.00%

This AA can be classified as rural, and is often described as a “bedroom” community, as residents often commute to neighboring communities for employment. NASA’s Stennis Space Center is among the major employers located in adjacent counties. Employers in Pearl River County are mostly centered in industrial fields. Huey Stockstill, a concrete company, is a major employer, with over 100 employees. Additionally, Pearl River Community College employs

residents of Pearl River County. As of December 31, 2009, unemployment for Pearl River County was 10%, compared to 10.3% for Mississippi statewide and 10.6% for the U.S. Approximately 34% of the population receives income from social security or some form of public assistance. Pearl River County experienced a population boom in August 2005 when Hurricane Katrina hit the coast of Louisiana and Mississippi. Residents in and around the New Orleans, LA area migrated to Pearl River County, causing a tremendous increase in the population and a need for more housing. The majority of these New Orleans natives later moved from the area, but the Pearl River County population remains 25% higher than before Hurricane Katrina.

We discussed community-lending needs with the executive director of a local economic development agency who identified small business loans as the most prominent lending need in the AA. Our contact stated that while there are no specific community development projects for local financial institutions to get involved with, a business technology park development has been proposed that requires funding. Our contact stated that local banks have been conservative and hesitant to get involved with the business technology park. He stated that perceptions of local financial institutions are the same, with no one institution viewed more favorably than the other.

Stone County Assessment Area

The Stone County, MS AA consists of two census tracts (CTs) with a total population of 13,622. The Wiggins, MS branch is the only branch located in the Stone County AA, a part of the Gulfport-Biloxi MSA. As of June 30, 2009, the Wiggins branch of FNBP holds only 6% of deposits in the Stone County AA market. The bank’s biggest competitor in the Stone County AA is Bank of Wiggins, who holds nearly 73% of the deposit market share.

The average median family income for the Stone County AA is \$36,675 with a HUD adjusted median family income for 2009 of \$51,800. Table 1B below shows the demographic makeup of the AA by census tract (CT) and income level.

Table 1B – Stone County AA Demographics				
Income Level	# of CTs	% of CTs	# of Families	% of Families
Low	0	0	0	0
Moderate	1	50%	947	25.94%
Middle	1	50%	2,704	74.06%
Upper	0	0	0	0
Total	2	100.00%	3,651	100.00%

This AA is considered rural, with a small population spread out over 440 square miles. As of December 31, 2009, unemployment for Stone County was 8.8%. This is below both Mississippi statewide and U.S. unemployment rates of 10.3% and 10.6%, respectively. Local employment is centered in education and manufacturing industries. The area’s most abundant natural resource is forestry, so there are several wood and paper mills in the area. Hood Industries, a plywood supplier, and Coastal Paper are two major employers in the area. Additionally, MS Gulf Coast

Community College and the local Board of Education employ a large number of residents in Stone County.

We discussed community-lending needs with the executive director of a local economic development partnership who identified small business and home loans as the most prominent lending needs in the AA. Our contact stated that there are no specific community development projects for local financial institutions to get involved with. Our contact stated that perceptions of local financial institutions are the same, with no one institution viewed more favorably than the other.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

FNBP's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. The bank's LTD ratio averaged 86.05% over the 25 quarters since the last CRA examination, with a quarterly low of 67.83% and a quarterly high of 94.11%. The bank's LTD ratio compares favorably with other community banks of similar size, location, and product offerings. FNBP ranks third among six banks serving its assessment areas.

Institution	Assets as of 3Q09 (in thousands)	Average LTD Ratio
The First, A National Banking Association	\$ 484,998	88.65%
First Southern Bank	\$ 188,659	86.40%
<i>First National Bank of Picayune</i>	<i>\$ 203,760</i>	<i>86.05%</i>
Citizens Bank	\$ 329,452	78.64%
The Peoples Bank, Biloxi, Mississippi	\$ 883,814	74.02%
Bank of Wiggins	\$ 184,322	66.32%

Lending in Assessment Area

FNBP originates a majority of its loans inside the AA. Nearly 85% of the number and 78% of the dollar volume of loans originated from January 1, 2008 to December 31, 2009 were to borrowers located within the AA. This meets the standard for satisfactory performance. The following table details the bank's lending within the AA by number and dollar amount of loans originated during the evaluation period.

Table 1 - Lending in Pearl River County and Stone County AAs										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	175	83.73	34	16.27	209	23,519	84.44	4,335	15.56	27,854
Home Improvement	60	89.55	7	10.45	67	1,981	87.38	286	12.62	2,267
Home Refinance	354	83.69	69	16.31	423	31,864	74.04	11,170	25.96	43,034
Business	28	93.33	2	6.67	30	521	56.94	394	43.06	915
Totals	617	84.64	112	15.36	729	57,885	78.15	16,185	21.85	74,070

Source: Loan Sample, Data reported under HMDA.

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

Overall, lending performance to borrowers of different incomes and businesses of different sizes is reasonable for both AAs.

Lending to small businesses is excellent for both AAs. The percentage of loans to businesses with annual revenues under \$1 million exceeds the percentage of businesses in each AA.

Performance in the Pearl River County AA

The borrower distribution of loans in the Pearl River County AA is excellent. More weight was given to the distribution of business loans, as this was identified as a primary need in the AA.

Home Loans

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels after considering the rate of poverty in this AA. Low-income families represent 20.61% of the AA. Although the bank achieved a significantly lower penetration of home loans to low-income borrowers, the level of poverty is 18% of the population in the AA. This high rate of poverty impedes the bank’s ability to originate home loans to low income borrowers. After considering the poverty rate, the bank’s performance to low-income borrowers is considered excellent for home improvement loans. The bank’s distribution of loans to moderate-income borrowers is below the demographic comparator, but is considered reasonable overall. Table 2 illustrates the distribution of home mortgage loans in relation to the number of families in the AA by income level.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Pearl River County AA								
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	20.61	1.85	16.38	8.02	19.18	20.37	43.83	58.64
Home Improvement	20.61	19.61	16.38	9.80	19.18	21.57	43.83	45.10
Home Refinance	20.61	6.49	16.38	11.36	19.18	17.21	43.83	53.25

Source: data reported under HMDA; U.S. Census data. Borrower income NA for 11.12% home purchase, 3.92% home improvement, and 11.69% home refinance loan.

Business Loans

The distribution of loans to businesses reflects an excellent penetration among businesses of different sizes. In the Pearl River County AA, 80.46% of businesses are small, generating gross revenues of less than \$1 million. FBNP lending to small businesses correlates positively, with 95.24% of the number of loans, and 96.40% of the dollar volume of loans being made to businesses with revenues less than \$1 million. Table 2A illustrates the distribution of commercial loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Businesses in Pearl River County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80.46%	1.82%	17.72	100%
% of Bank Loans in AA by #	95.24%	4.76%	N/A	100%
% of Bank Loans in AA by \$	96.40%	3.60%	N/A	100%

Source: Loan sample; Dunn and Bradstreet data

Performance in Stone County AA

The borrower distribution of loans in the Stone County AA is reasonable. Home and business loans were both identified as primary needs in the Stone County AA. Therefore, equal weight was given to both when evaluating performance.

Home Loans

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels. Low-income families represent 28.40% of the AA. The bank’s level of lending to low-income borrowers is below the demographic comparator for home purchase and home improvement loans. Performance is weak even after considering the 17% poverty rate. Performance for home refinance loans is considered reasonable for low-income borrowers. The bank’s distribution of loans to moderate-income borrowers is also poor for home purchase loans; but is considered excellent for home improvement and refinance loans. Table 2 below illustrates the distribution of home mortgage loans in relation to the number of families in the AA by income level.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Stone County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	28.40	7.69	17.26	0.00	18.68	30.77	35.66	53.85
Home Improvement	28.40	11.11	17.26	22.22	18.68	33.33	35.66	33.33
Home Refinance	28.40	15.22	17.26	21.74	18.68	34.78	35.66	28.26

Source: Data reported under HMDA; U.S. Census data.

Business Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Table 2A shows that in the Stone County AA, 76.01% of businesses have gross revenues of less than \$1 million. FBNP lending to small businesses reflects that 100% of both the number and dollar volume of loans are made to businesses with revenues less than \$1 million.

Table 2A - Borrower Distribution of Loans to Businesses in Stone County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	76.01%	2.14%	21.85%	100%
% of Bank Loans in AA by #	100.00%	0.00%	N/A	100%
% of Bank Loans in AA by \$	100.00%	0.00%	N/A	100%

Source: Loan sample; Dunn and Bradstreet data

Geographic Distribution of Loans

The geographic distribution of loans in both assessment areas reflects a reasonable dispersion throughout census tracts of different income levels. The Pearl River County AA reflected excellent dispersion of both home and business loans to moderate-income census tracts. The Stone County AA reflected a reasonable dispersion of home loans, but a poor dispersion of business loans. There were no opportunities in either AA to serve low-income census tracts.

Performance in Pearl River County AA

The bank’s geographic distribution of loans in this AA reflects a reasonable dispersion of home loans and excellent dispersion of business loans throughout census tracts of different income levels. There are no opportunities for the bank to provide home or small business loans to the low-income census tracts in this AA.

Home Loans

The geographic distribution of home loans reflects a reasonable penetration among census tracts of different income levels. Table 3 below shows that the percentage of loans made in moderate-income census tracts exceeds the demographic comparator for home improvement and home refinance loans. The percentage of loans made in the moderate-income census tracts is below the demographic comparator for home purchase loans. This AA has no owner occupied housing in low-income census tracts. Table 3 shows the geographic distribution of home loans for the period of January 1, 2008 through December 31, 2009 as compared to the percent of families in each income category.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Pearl River County AA								
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	0.00	0.00	12.14	6.79	61.47	59.26	26.39	33.95
Home Improvement	0.00	0.00	12.14	21.57	61.47	47.06	26.39	31.37
Home Refinance	0.00	0.00	12.14	12.34	61.47	59.74	26.39	27.92

Source: data reported under HMDA; U.S. Census data.

Business Loans

The distribution of loans to businesses reflects excellent penetration among businesses of different sizes. Table 3A below shows that of the 18.83% of businesses located in the moderate income census tracts, the bank originated 23.81% of business loans to these tracts. The AA contains no businesses in low-income census tracts.

Table 3A - Geographic Distribution of Loans to Businesses in Pearl River County AA								
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
Business	0.00	0.00	18.83	23.81	60.72	28.57	20.45	47.62

Source: Loan sample; Dunn and Bradstreet data.

Performance in Stone County AA

The bank’s geographic distribution of loans in this AA reflects poor dispersion throughout census tracts of different income levels. The geographic distribution of home loans is considered reasonable, while the distribution of business loans is considered poor. Although both loan types were identified as primary needs in the AA, more weight was given to the distribution of business loans as there were more opportunities for the bank to serve this sector.

Home Loans

The bank’s geographic distribution of home loans in this AA reflects a reasonable dispersion throughout the census tracts of different income levels. While there are is no owner-occupied housing in low-income census tracts, 22.14% of owner-occupied housing is located in moderate-income census tracts. The geographic distribution of loans to moderate-income tracts is reasonable for home improvement and home refinance loans. The geographic distribution of loans to moderate-income tracts is poor for home purchase loans. However, opportunities to lend in these tracts is limited after considering that of the 1,449 housing units in the moderate-income census tracts in the AA, only 321 of these units are owner-occupied. Table 3 below details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Stone County AA								
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	0.00	0.00	22.14	7.69	77.86	92.31	0.00	0.00
Home Improvement	0.00	0.00	22.14	11.11	77.86	88.89	0.00	0.00
Home Refinance	0.00	0.00	22.14	13.04	77.86	86.96	0.00	0.00

Source: Data reported under HMDA; U.S. Census data.

Business Loans

The geographic distribution of business loans reflects poor dispersion throughout the census tracts of different income levels. Table 3A below shows that of the 42.76% of businesses located in the moderate income census tracts, the bank originated only 18.18% of business loans to this group. There are no businesses located in low-income census tracts.

Table 3A - Geographic Distribution of Loans to Businesses in Stone County AA								
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	0.00	0.00	42.76	18.18	57.24	81.82	0.00	0.00

Source: Loan sample; Dunn and Bradstreet data.

Responses to Complaints

No complaints related to CRA lending performance were received during the evaluation period. This has a neutral impact on the overall CRA rating.

Fair Lending or Other Illegal Credit Practices Review

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