



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 29, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Paragon National Bank
Charter Number 24538

6300 Poplar Avenue, Suite 117
Memphis, TN 38119-0000

Office of the Comptroller of the Currency

Little Rock Field Office
1401 West Capitol Avenue, Suite 350, Little Rock, AR. 72201

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 major factors that support this rating include:

- Paragon National Bank (PNB) has a reasonable loan-to-deposit ratio.
- A majority of PNB's primary loan products are within the assessment area.
- PNB's overall borrower distribution for loans in the assessment area is reasonable.
- PNB's overall geographic distribution of loans reflects reasonable dispersion.

SCOPE OF EXAMINATION

An onsite examination of the bank was performed to determine its performance under the Community Reinvestment Act (CRA). The bank was evaluated using Small Bank CRA criteria. The bank's primary loan products are residential real estate and commercial loans. Loan information used for this evaluation included Home Mortgage Disclosure Act (HMDA) data for the years 2007 through 2011 and a sample of forty commercial loans made in 2010 and 2011. A data integrity examination of the bank's 2009 through 2011 HMDA reports was performed prior to the CRA exam with no significant deficiencies noted. This performance evaluation covers the periods from May 8, 2007 to December 31, 2011.

DESCRIPTION OF INSTITUTION

Paragon National Bank (PNB) was chartered on January 19, 2005. The bank is locally owned and operated and does not have a holding company. The bank does not have any subsidiaries or affiliates that impact their ability to meet credit needs of the community. Currently, it is a \$259 million bank with locations in the Memphis Metropolitan Statistical Area (MSA). The main office is located at 5400 Poplar Road, Memphis, Tennessee, with four total branch locations in southeast Memphis and Germantown. The bank has closed one branch since the previous CRA examination. The bank offers a wide variety of loan products, including commercial loans, residential construction loans, mortgage loans, a variety of consumer loans, and a full range of deposit products. Delivery services include 24-hour telephone banking, customer access to 5 full-service automated teller machines (ATMs) in the Memphis MSA, and a full range of services through its internet banking website. The bank offers its small business customers several cash management tools available to make their banking more convenient, including remote deposit capture, lockbox, internet banking, and courier service to pick up deposits. As of December 31, 2011, bank loans totaled \$191 million representing approximately 74 percent of total assets.

The bank's business strategy is to provide a high level of customer service combined with up-to-date technology. The bank's primary loan products are commercial loans and residential real estate, with a primary focus on commercial lending. The bank has a separate mortgage banking department which generates and sells loans into the secondary market. The table below presents the distribution of the bank's loan portfolio.

Loan Portfolio Composition as of December 31, 2011 (in 000s)		
Loan Type	Amount (000s)	Percent
Construction and Land Development	\$13,650	7.1%
Farmland	7,965	4.2
1-4 Family Residential	56,870	29.8
Multifamily (5 or more) Residential	370	0.2
Commercial (nonfarm, nonresidential)	64,856	33.9
Total Real Estate Loans	\$143,711	75.2%
Agriculture	0	0.0
Commercial and Industrial	39,872	20.8
Consumer and Other Loans	7,209	3.8
Other Loans	386	0.2
Total Gross Loans	\$191,178	100%

Source: Consolidated Report of Condition 12/31/2011

There are no legal or financial circumstances that would prevent the bank from meeting the credit needs of its assessment area (AA). The bank was rated Satisfactory at the previous CRA examination dated May 14, 2007.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank's AA includes the east Memphis and Germantown areas of Shelby County Tennessee, along with four census tracts located in Fayette County, Tennessee. The bank delineated 113 of the 216 census tracts located in the Memphis MSA as their AA. According to the 2000 Census, there are four low-income, 19 moderate-income, 31 middle-income, and 58 upper-income census tracts in the bank's AA. There is an additional census tract in the AA that has an unknown income level, primarily due to the presence of a correctional facility. The AA delineation is in conformance with the CRA regulation. The AA does not include the entire Memphis MSA because it would not be reasonable for the bank to serve the whole MSA due to its size and branching structure. The AA includes only whole census tracts and does not arbitrarily exclude any low- or moderate-income areas.

Economic conditions in Memphis appear to be stabilizing. Based on April 2012 statistics provided by the Federal Reserve Board, the Memphis MSA had an unemployment rate of 8.7 percent, which is slightly above the state-wide average of 7.8 percent. The bank's AA is characterized by a high percentage of families classified as upper-income at 53 percent, followed by middle-income at 19 percent, moderate-income at 14 percent, and low-income at 14 percent. Banking competition is considered strong, with numerous branches of large regional banks, credit unions, finance companies, and mortgage companies throughout the

assessment area.

Two community contacts were performed during the evaluation to obtain current information concerning the Memphis MSA. The contacts indicated that foreclosures and bankruptcy continue to be a problem in this area. A decline in property values was also noted by both contacts. However, based on a review of the local economy, it appears that the decline in property values in 2012 has slowed down from levels of decline in recent years.

The primary credit needs of the community are financing options for low- and moderate-income home buyers. One community contact indicated that while local banks meet the overall needs of the AA, the larger institutions have been less willing to participate in these types of programs. Both contacts indicated that banks could provide additional support to the community through increased foreclosure prevention and intervention programs.

Demographic and Economic Characteristics Paragon National Bank Assessment Area	
Population	
Population	597,398
Number of Families	155,873
Number of Households	228,596
Geographies	
Number of Census Tracts	113
% Low-Income Census Tracts	4
% Moderate-Income Census Tracts	19
% Middle-Income Census Tracts	31
% Upper-Income Census Tracts	58
Not Applicable	1
Median Family Income (MFI)	
2000 MFI for AA	\$46,771
2011 HUD-Adjusted MFI	\$58,300
Economic Indicators	
Unemployment Rate – MSA April 2012	8.7%
Unemployment Rate – Tenn April 2012	7.8%
Unemployment Rate – USA April 2012	8.1%
Median Housing Value as of 2000	\$127,879
% of Households Below Poverty Level	8.43%

Sources: Bureau of Labor Statistics, St. Louis Fed (FRED), 2000 Census Data, and 2011 Projected Geo-demographic Data. Unemployment rates were taken as seasonally adjusted.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

PNB’s performance under the lending test is satisfactory. The majority of the weight was

placed on the bank’s reasonable loan-to-deposit ratio and lending in the assessment area. PNB was found to have overall reasonable penetration among borrowers of different income levels and businesses of different sizes. PNB’s overall geographical distribution of loans was also reasonable.

All criteria of the lending test are documented below.

Loan-to-Deposit Ratio

Paragon National Bank’s average loan-to-deposit ratio at 86.51 percent is reasonable given its size, financial condition, funding sources, and assessment area’s credit needs.

The average loan-to-deposit (LTD) ratio was derived from a 20 quarter average taken from March 2007 to December 2011. For purposes of this analysis, three banks conducting business in the bank’s assessment area with similar asset sizes were used to determine the bank’s performance. These banks include Patriot Bank of Millington, Tennessee, as well as Landmark Community Bank and BankTennessee of Collierville, Tennessee. The three institutions had an overall average LTD of 85.71 percent during the same quarters. These institutions had average LTDs ranging from a high of 86.83 percent to a low of 84.86 percent.

Loan-to-Deposit Ratio <i>20 Quarter Average from March 2007 to December 2011</i>		
Institution	Assets (as of 12/31/2011) \$(000)	Average LTD Ratio
Paragon National Bank	\$259,492	86.51%
Patriot Bank	\$246,718	85.45%
Landmark Community Bank	\$289,808	86.83%
BankTennessee	\$246,802	84.86%

Source: Uniform Banking Performance Reports (Call Reports)

Lending in Assessment Area

A majority of the Paragon National Bank’s primary loan products were made inside its AA.

The table below details the bank's lending within the AA by number and dollar amount of loans. As indicated, approximately 72 percent of the loans were customers located in the bank's AA by number, and 73 percent by dollar volume.

Table 1 - Lending in AA (in 000s)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$ (in 000s)	%	\$ (in 000s)	%	
Home Purchase	352	66.79	175	33.21	100.00	60,929	67.88	28,834	32.12	100.00
Home Improvement	2	100.00	0	0.00	100.00	406	100.00	0	0.00	100.00
Refinance	289	77.90	82	22.10	100.00	63,942	77.18	18,911	22.82	100.00
Commercial	29	72.50	11	27.50	100.00	11,380	74.79	3,837	25.21	100.00
Total	672	71.49	268	28.51	100.00	136,657	72.60	51,582	27.40	100.00

Source: 2007-2011 HMDA Data; loan sample

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

The overall borrower distribution for loans in the assessment area is reasonable. Although some areas of home lending reflect poor distribution, mitigating factors include overall low loan demand, poverty levels in the assessment area, and reasonable performance for lending to businesses of different sizes. An additional mitigating factor is the bank's size, which limits them to the areas that they can reasonably be expected to serve. The bank is concentrated in a small portion of the Memphis MSA (approximately 6 miles) and the census tracts with the higher concentration of low- and moderate-income borrowers are not in this immediate area. It would not be reasonable to expect the bank to lend to a high proportion of borrowers outside of their immediate footprint.

Home Loans

Borrower distribution to low-income borrowers in the AA is poor for home purchase and refinance loans. Approximately 14 percent of the families in the AA are low-income families, however, the bank only made six home purchase and refinance loans to low-income families in the assessment area. The bank's performance for home improvement loans is poor. However, this receives very little weight as only two home improvement loans were made to all borrowers from 2007 to 2011. The bank's poor performance for residential real estate loans to low-income borrowers is mitigated by a poverty level of 8% in the assessment area. This poverty level limits opportunities to qualify borrowers for home loan products. Borrower distribution for home purchase loans to moderate-income borrowers is reasonable. The bank's performance for home improvement loans to moderate-income borrowers is poor. However, again, only two home improvement loans were made to all borrowers in the assessment area from 2007 to 2011. Borrower distribution for refinance loans is poor, as less than three percent of refinance loans were made to moderate-income borrowers.

The following table shows the distribution of home loans among borrowers of different income levels in the assessment area.

Table 2 - Borrower Distribution of Residential Real Estate Loans in AA										
Borrower Income Level	Low		Moderate		Middle		Upper		N/A	
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	% of AA Families	% of Number of Loans
Home Purchase	13.78	1.42	14.02	11.36	18.99	10.80	53.21	67.61	0.00	8.81
Home Improvement	13.78	0.00	14.02	0.00	18.99	0.00	53.21	100.00	0.00	0.00
Refinance	13.78	0.35	14.02	2.77	18.99	15.22	53.21	78.20	0.00	3.46

Source: 2007-2011 HMDA Data, 2000 U.S. Census Data

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. Twenty-nine percent of the bank’s loans reviewed in the loan sample were made to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. These results indicate poor penetration compared to demographic data that shows 67 percent of the area’s businesses are considered small businesses. Because we lacked revenue data on sixteen percent of loans made by the bank, we also looked at the distribution of loans by dollar amount. Loan size was used as a proxy for business revenue. The size threshold used was loans of \$250 thousand or less. We found that 71 percent of loans in our sample were loans equal to or less than \$250 thousand. This provides support for a reasonable distribution of loans to small businesses.

The following table shows the distribution of commercial loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	66.92	3.21	29.87	100%
% of Bank Loans in AA by #	28.95	55.26	15.79	100%
% of Bank Loans in AA by \$	32.35	59.31	8.35	100%

Source: Loan sample; Dunn and Bradstreet data

The table below shows the distribution of commercial loans in the AA by loan size, which was used as a proxy for business revenue.

Table 2B - Borrower Distribution of Loans to Businesses by Loan Size in AA

Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	19	50.00	\$934,467	7.65
\$100,001 - \$250,000	8	21.05	\$1,553,959	12.72
\$250,001 - \$500,000	7	18.43	\$3,225,000	26.41
\$500,001 - \$1,000,000	2	5.26	\$1,500,000	12.28
Over \$1,000,000	2	5.26	\$5,000,000	40.94

Source: Loan sample

Geographic Distributions of Loans

Overall, geographic distribution of loans shows reasonable dispersion and reflects lending in census tracts of all income levels. Although some areas of the bank’s geographic distributions of residential loans reflect poor dispersion, mitigating factors create an overall reasonable geographic distribution. Mitigating factors noted include: a small volume of owner-occupied homes located in low and moderate census tracts as well as a small physical geographic footprint of the bank's branches. The bank’s geographic distribution of business loans is reasonable while making up a majority of the bank’s loan portfolio and reflect the bank’s current business strategy of focusing on commercial loans.

Home Loans

Paragon NB’s geographic distribution of home purchase, refinance and home improvement is overall poor with reasonable mitigating factors noted. While there appears to be a concentration in middle and upper income levels, the bank has limited owner occupied housing as a percentage of the assessment area in low- and moderate-income levels.

Home purchase loans show poor distribution to low- and moderate-income areas as evidenced by a below-average percentage of number of loans as compared to the average of AA owner occupied housing. This is especially true for the moderate-income housing. This can be attributed to the limited number of low-and moderate-income owner occupied units in the area, which are 13 units and 3,320 units respectively, compared to the overall owner occupied housing in the assessment area, which totals 93,688 units.

The bank’s geographic dispersion of home improvement loans for both low- and moderate-income census tracts is reasonable given that the bank only made two home improvement loans. The distribution of refinance loans also reflects poor dispersion although can also be explained by the low level of low- and moderate-income owner occupied units.

Table 3 - Geographic Distribution of Residential Real Estate Loans in 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	0.57	0.28	10.27	4.55	26.18	22.73	62.99	72.44
Home Improvement	0.57	0.00	10.27	0.00	26.18	0.00	62.99	100.00
Refinance	0.57	0.00	10.27	2.08	26.18	7.96	62.99	89.97

Source: 2007-2011 HMDA data; 2000 U.S. Census data.

Business Loans

Paragon NB's geographic distributions of business loans are reasonable. As noted in the graph below, although there was poor dispersion in the low-income census tracts, the bank had excellent dispersion of loans to the moderate-income census tracts.

Table 3A - Geographic Distribution of Loans to Businesses in AA

Census Tract Income Level	Low		Moderate		Middle		Upper		N/A	
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	% of AA Businesses	% of Number of Loans
Commercial Loans	1.32	0	9.79	17.24	22.15	27.59	66.47	55.17	0.27	0

Source: Loan Sample; Dunn and Bradstreet Data

Responses to Complaints

The bank has not received any CRA related complaints since its inception on January 19, 2005.

Fair Lending or Other Illegal Credit Practices Review

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