



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**June 18, 2007**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The First National Bank of Canton  
Charter Number 8891**

**231 East Tyler Street  
Canton, TX 75103**

**Comptroller of the Currency  
Longview Field Office  
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.**

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

The First National Bank of Canton (FNBC) has a satisfactory record of meeting community credit needs. This rating is based on the following:

- The bank's loan to deposit ratio is good based on its size and complexity.
- A substantial majority of the bank's loans are extended within the bank's assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels and businesses of different sizes.

## **DESCRIPTION OF INSTITUTION**

First National Bank of Canton (FNBC) is an \$80 million bank located in Canton, Texas, approximately 60 miles east of Dallas, Texas and 35 miles northwest of Tyler, Texas. FNBC serves Van Zandt County through two banking locations in Canton, Texas: the main office at 231 East Tyler Street and a branch at 330 East Highway 243. In addition, the bank has a branch in Forney, Texas which opened in August 2006 and serves parts of Kaufman and Rockwall Counties. The bank is a Sub-Chapter S Corporation with no holding company affiliations. There are no financial or legal obstacles affecting the bank's ability to meet community credit needs. The bank was rated satisfactory during the prior Community Reinvestment Act (CRA) Examination dated March 24, 2003. The following chart reflects the distribution of the bank's loan portfolio:

<b>Loan Category</b>	<b>\$ (000)</b>	<b>%</b>
Agricultural Loans	\$1,029	2.47%
Commercial Loans	\$6,460	15.52%
Residential Real Estate Loans	\$27,276	65.55%
Consumer Loans	\$6,846	16.45%
<b>Total</b>	<b>\$41,611</b>	<b>100.00%</b>

## **DESCRIPTION OF ASSESSMENT AREA**

The Board has designated the entire county of Van Zandt as its assessment areas as well as census tracts 502.01 and 502.02 in Kaufman County and census tracts 405.01 and 405.02 in Rockwall County. The bank's main office and a motor bank are located in Van Zandt County while a full service branch is located in Kaufman County. This assessment area meets the

requirements of the Community Reinvestment Act and does not arbitrarily exclude low and moderate-income geographies. The Forney branch was not included in the CRA analysis because the branch opened in August of 2006, and has only generated \$1 million in loans as of May 31, 2007. Our review included an assessment of the banks lending in Van Zandt County only. Following is a description of Van Zandt County.

FNBC’s main office is located in Canton, Texas in Van Zandt County. Van Zandt County has no low or moderate income tracts, 8 middle income tracts, and 2 Upper income tracts. The county has a total population of 48,140 and the local economy is considered stable. The bank’s primary competition consists of branches of larger national and state banks, and a local credit union, all of which operate within the bank’s assessment area. The distribution of families by income level, regardless of census tract location, consists of the following: 16.86% are low income, 15.26% are moderate income, 20.99% are middle income, and 46.89% are upper income. Major employers in Van Zandt County include Homemade Gourmet, Canton Independent School district, Van Zandt County, and Winning Strategies. Contact with a local business organization in Canton revealed the primary community credit needs for the assessment area are residential mortgages and consumer loans. The contact also noted the lack of available affordable housing in the area. The following table reflects the demographics for the assessment area (AA):

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF VAN ZANDT COUNTY</b>	
<b><i>Population</i></b>	
Number of Families	13,790
Number of Households	18,233
<b><i>Geographies</i></b>	
Number of Census Tracts/BNA	10
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	80.00%
% Upper-Income Census Tracts/BNA	20.00%
<b><i>Median Family Income (MFI)</i></b>	
2000 MFI for AA	\$36,380
2006 HUD-Adjusted MFI	\$43,100
<b><i>Economic Indicators</i></b>	
Unemployment Rate	2.61%
2006 Median Housing Value	\$66,493
% of Households Below Poverty Level	13.79%

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The loan-to-deposit ratio of FNBC is reasonable given the bank's size, financial condition and assessment area credit needs. FNBC's loan-to-deposit ratio is comparable to other banks headquartered within the bank's assessment area. The bank's loan-to-deposit ratio has averaged 53.74% since the prior CRA examination. The average loan-to-deposit ratio of banks within the assessment area, regardless of size, for the same time period is 60.60%.

Institution	Assets (000s) (as of 3/31/07)	Average LTD Ratio
Citizens Nation Bank Wills Point	\$79,239	64.42%
First State Bank of Van	\$39,106	77.99%
First State Bank of Ben Wheeler	\$80,875	54.73%
The First National Bank of Canton	\$79,744	53.74%
The First National Bank of Edgewood	\$16,959	52.12%

### Lending in Assessment Area

A substantial majority of the bank's lending activity is located within its assessment area. Our review focused on the bank's main product lines: residential, consumer, and commercial loans. We reviewed a sample of 27 residential loans, 25 consumer loans, and 21 commercial loans. This sample reflected approximately 90% of the number of loans and 92% of the dollar amount of loans were extended in Van Zandt Counties. 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	25	92.59%	\$1,925	88.78%	2	7.41%	\$243	11.22%
Consumer	21	84.00%	\$110	81.16%	4	16.00%	\$25	18.84%
Commercial	20	95.24%	\$1,113	97.84%	1	4.76%	\$25	2.16%
Total Reviewed	66	90.41%	\$3,167	91.51%	7	9.59%	\$294	8.49%

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

The distribution of loans within Van Zandt County reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. There is low penetration to low and moderate-income individuals for residential housing for Van Zandt County. However, borrowing for home purchases by low moderate-income individuals is limited due to the low level of affordable housing stock available in the area. In addition, 13.79% of the households in the county are below the poverty level. The distribution of consumer loans reflects an excellent penetration among borrowers of different income levels.

RESIDENTIAL REAL ESTATE LOANS IN VAN ZANDT COUNTY								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	16.86%		15.26%		20.99%		46.89%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	7.41%	5.81%	7.41%	2.52%	22.22%	18.08%	62.96%	73.59%

CONSUMER LOANS IN VAN ZANDT COUNTY								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	21.55%		14.02%		17.22%		47.21%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	28.00%	17.02%	24.00%	19.43%	32.00%	45.95%	16.00%	17.59%

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 2,197 businesses with revenues less than \$1 million in Van Zandt County. This number represents approximately 95.31% of all businesses in Van Zandt County with income reported within the assessment area. Based on Census information, there are 3,486 businesses in the assessment area, although revenue information was not reported for 2,305 of the businesses. Our analysis was performed based on business with reported income. However, these numbers may not accurately reflect the true distribution of small businesses within the assessment area due to the large number of business that did not report revenues. Our sample of commercial loans inside the assessment area revealed a substantial majority of the bank’s commercial loans were to businesses with revenues less than \$1 million.

<b>Borrower Distribution of Loans to Businesses Van Zandt County</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	63.02%	3.10%	33.88%	100%
% of Bank Loans in AA by #	80.95%	19.05%	0.00%	100%
% of Bank Loans in AA by \$	81.32%	18.68%	0.00%	100%

### **Geographic Distribution of Loans**

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

### **Responses to Complaints**

First National Bank Canton has not received any complaints or public comments regarding CRA performance during this evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

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