



PUBLIC DISCLOSURE

August 22, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Morris County National Bank of Naples
Charter Number 7194

101 W L Doc Dodson
Naples, TX 75568

Office of the Comptroller of the Currency

1800 NW Loop 281
Suite 306
Longview, TX 75604-2516

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

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

- The loan-to-deposit ratio is reasonable.
- A substantial majority of the bank's lending is extended within their assessment area.
- The distribution of loans to borrowers of different income levels and businesses of different sizes is reasonable given the overall demographics of the bank's assessment area.
- The geographic distribution of loans represents excellent dispersion.

SCOPE OF EXAMINATION

The scope of the examination was to assess the bank's ability to meet the credit needs of the communities in which it operates. The bank was evaluated under the Small Bank Community Reinvestment Act performance criteria. The examination included an evaluation of one assessment area (AA) that included all of Morris and Cass County as well as one census tract in Titus County. Conclusions regarding the bank's lending performance are based on the bank's primary products, which include consumer and commercial loans originated from January 1, 2014, through June 30, 2016. Bank management agreed with this period of data analysis.

DESCRIPTION OF INSTITUTION

Morris County National Bank (MCNB) is a \$98 million institution, which is wholly owned by Morris County Bancshares, Inc. The bank is located at 1010 WL Doc Dodson, Naples, Texas. In addition to the main office, the bank has one full service branch located in Queen City, Texas. Automated teller machines are available at each location as well as at a convenience store and a pawn shop in Queen City, Texas. As of June 30, 2016, loans totaled \$55 million representing 57 percent of the bank's total assets. While residential real estate and agriculture loans make up almost 48 percent of the portfolio, they were not primary products during the evaluation period.

The following chart reflects the distribution of the bank's loan portfolio:

Loan Category	\$ (000)	%
Residential Real Estate	\$13,976	25.26%
Agriculture	\$12,360	22.35%
Commercial Real Estate	\$11,847	21.42%
Commercial	\$8,632	15.61%
Consumer	\$6,973	12.61%
Other	\$1,521	2.75%
Total	\$55,309	100.00%

There are no other legal impediments or other factors which inhibit the bank's ability to meet the credit needs of the community. The bank was rated "Satisfactory" at the prior CRA examination dated May 2, 2011.

DESCRIPTION OF ASSESSMENT AREA(S)

The board has designated one AA, which includes Morris and Cass Counties in their entirety as well as one census tract (9504) in Titus County. The AA meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude any low- or moderate-income geographies.

MCNB has two banking offices, one located in Naples, Texas, and one located in Queen City, Texas. The AA has no low-income census tracts, one moderate-income census tract, nine middle-income census tracts, and one upper-income census tracts. Based on 2010 census data, the assessment area has a total population of 49,172. The distribution of families by income level, regardless of census tract location consists of the following: 24.19 percent are low income, 17.02 percent are moderate income, 19.50 percent are middle income, and 39.30 percent are upper income. Major employers include International Paper Company, Pilgrim's Pride, Pewitt Consolidated Independent School District, and Queen City Independent School District. Competition in the assessment area is strong with other banks and credit unions located in the area. A contact with a representative from the Chamber of Commerce in Atlanta, Texas, revealed a need for small business loans and stated that local institutions are doing a good job of meeting the community needs.

The following table reflects the demographic data for the assessment area:

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS	
<i>Population</i>	
Number of Families	13,152
Number of Households	18,996
<i>Geographies</i>	
Number of Census Tracts/BNA	11
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	9.09%
% Middle-Income Census Tracts/BNA	81.82%
% Upper-Income Census Tracts/BNA	9.09%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$47,321
2015 HUD-Adjusted MFI	\$52,400
<i>Economic Indicators</i>	
Unemployment Rate	4.50%
2015 Median Housing Value	\$72,685
% of Households Below Poverty Level	19.60%

Source: 2010 Census Data

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall lending performance is satisfactory. The bank's loan-to-deposit ratio is reasonable and a substantial majority of the bank's loans are within the AA.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of MCNB is reasonable given the bank's size, financial condition, and the AA credit needs. The bank's quarterly average loan-to-deposit ratio is 56.37 percent since the prior CRA examination in May 2011. The bank's loan-to-deposit ratio has been increasing over the last year and as of June 30, 2016, is 64.27 percent. The average loan-to-deposit ratio of banks within the AA, regardless of size, for the same time period was 82.70 percent.

Institution	Assets (000s) (as of 6/30/2016)	Average LTD Ratio
Morris County National Bank, Naples	\$94,332	56.37%
Texas Heritage National Bank, Daingerfield	\$125,919	91.92%
Texana Bank, National Association, Linden	\$145,656	104.31%
The American National Bank of Mount Pleasant	\$90,446	68.15%
Bloomburg State Bank, Bloomburg	\$17,031	66.41%

Lending in Assessment Area

A substantial majority of the bank's lending activity is located within the AA. We reviewed consumer and commercial loans that were originated from January 1, 2014, through June 30, 2016. The break down by loan category is illustrated in the following table:

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Consumer	17	85.00%	3	15.00%	20	\$195	88.87	\$24	11.13%	\$219
Commercial	14	70.00%	6	30.00%	20	\$3,397	72.20%	\$1,308	27.80%	\$4,705
Totals	31	77.50%	9	22.50%	40	\$3,592	72.94%	\$1,332	27.06%	\$4,924

Source: Loan Sample

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

MCNB's distribution of loans to borrowers of different income levels and businesses of different sizes represents a reasonable penetration given the overall demographics of the AA.

The penetration of consumer loans by borrower income level is reasonable. Loans extended to low- and moderate-income borrowers exceeded the demographic and represent 30 and 15 percent of the loan sample, respectively.

Borrower Distribution of Consumer Loans									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans	% of AA House holds	% of # of Loans	% of # of Loans
% of Total	27.9%	30.00%	14.89%	15.00%	18.48%	35.00%	38.73%	15.00%	5.00%

Source: Loan Sample, US Census data

The bank’s penetration of loans to small businesses is excellent. The percentage of loans to businesses with reported revenues of \$1 million or less is 78.95 percent, compared to 76.34 percent of businesses in the AA with 19.8 percent of businesses not reporting revenues.

Borrower Distribution to Businesses				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	76.34	3.86	19.8	100.00%
% of Bank Loans in AA by #	78.95%	21.05%	0.00%	100.00%
% of Bank Loans in AA by \$	15.36%	84.64%	0.00%	100.00%

Source: Loan Sample, US Census data

Geographic Distribution of Loans

MCNB’s overall geographic distribution of loans represents an excellent dispersion given the demographics of the AA.

The geographic distribution of consumer loans represents excellent dispersion. The distribution of loans in the moderate income census tract is 20 percent, compared to 5.79 percent of AA households.

Geographic Distribution of Consumer Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
% of Total	0.00%	0.00%	5.79%	20.00%	88.67%	80.00%	5.54%	0.00%

Source: Loan Sample, US Census data

The geographic distribution of business loans represents excellent dispersion. The distribution of loans in the moderate income tract is 5.26 percent compared to 3.41 percent of AA businesses.

Geographic Distribution of Commercial Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
% of Total	0.00%	0.00%	3.41%	5.26%	92.05%	89.47%	4.54%	5.26%

Source: Loan Sample, US Census data

Responses to Complaints

MCNB did not receive any CRA related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), in determining a national bank's (bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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