



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 25, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**201 E. Main
Naples, Texas 75568**

**Office of the Comptroller of the Currency
Southwestern District
1600 Lincoln Plaza
500 North Akard
Dallas, Texas 75201-3394**

NOTE: 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.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Morris County National Bank of Naples, Naples, Texas** prepared by the **Office of the Comptroller of the Currency** the institution's supervisory agency, as of July 25, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated Satisfactory. Our assessment of the bank's CRA performance is supported by the following factors:

- The quarterly average loan to deposit ratio of 45.71% is reasonable.
- A majority of the bank's loans are originated within the assessment area.
- The distribution of loan originations reflects a reasonable penetration among individual borrowers of all income levels.

The following table indicates the performance level of The Morris County National Bank of Naples, Naples, Texas with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>The Morris County National Bank of Naples</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans	Not meaningful.		
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION:

The Morris County National Bank of Naples (MCNB) is a \$58 million financial institution located at 201 E. Main in Naples, Texas. The bank does not have any branch locations. The institution offers the traditional range of deposit and loan products. As of June 30, 1997, loans represented 45% of the bank's total assets. The loan portfolio reflects the following breakdown by loan type: commercial and commercial real estate loans, 55%; consumer loans, 28%; and residential real estate loans, 17%. MCNB is 100% owned by Morris County Bankshares, Inc., a one bank holding company. There are no legal or other impediments which limit the bank's ability to help meet the credit needs of the community. The prior CRA Examination was conducted as of January 4, 1995.

DESCRIPTION OF ASSESSMENT AREA:

The Board and management have designated one assessment area for CRA purposes. This designation meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geographies.

The assessment area includes four block numbering areas (BNAs) and one census tract (CT) located in four contiguous counties (Morris, Cass, Titus, Bowie). These five geographies represent the areas including and immediately surrounding the bank's location. Naples is located in the northern portion of Morris County. Due to the narrow geographic boundaries of Morris County, BNAs from the counties located to the east and west were also included in the assessment area. As a result, the assessment area consists of two BNAs (9501, 9502) in Morris County, one BNA (9502) in Cass County, and one BNA (9504) in Titus County. The 1996 Department of Housing and Urban Development (HUD) median family income for these counties is \$28,900. The remaining geography included in the assessment area (CT 9514) is located in Bowie County which is included in the Texarkana Metropolitan Statistical Area (MSA). The 1996 HUD median family income for this MSA is \$32,800. The remaining BNAs and CTs from these four counties were excluded to prevent the assessment area from being too large for the bank to reasonably service.

All five geographies included in the assessment area are designated as middle income areas. Further, a breakdown of the population by individual income levels reflects the following distribution throughout the assessment area: low income families, 21%; moderate income families, 19%; middle income families, 21%; and upper income families, 39%. A large segment of the local economy is agricultural based in cattle and hay production. Major employers in Naples include the local school district and two

local manufacturing companies. In addition, many area residents commute to surrounding areas such as Mount Pleasant, Daingerfield, and Texarkana for work.

As part of our evaluation, we contacted a local government official. According to this individual, the area economy is stable with a limited amount of growth being experienced as some individuals are returning to the area to retire. The contact identified agricultural production and consumer loans as the major credit needs within the area at this time. He indicated these needs are being met by existing products offered by local financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN-TO-DEPOSIT RATIO:

The bank’s loan-to-deposit ratio is reasonable. The quarterly loan-to-deposit ratio has averaged 45.71% since the prior CRA Examination, ranging from a low of 43% to a high of 49%. In comparison, the ratio for other banks located within or surrounding MCNB’s designated assessment area has averaged 55%. Ratios for the individual banks included in this custom peer group range from 35% to 66%. MCNB continues to experience loan growth which has increased their loan-to-deposit ratio over the time period reviewed. As of June 30, 1997, the ratio has increased to 48.39%.

LENDING IN ASSESSMENT AREA:

A majority of the bank’s loans are extended within the designated assessment area. Our analysis was based on a sample of 20 residential real estate loans, 48 consumer loans, and 23 commercial loans originated since the prior CRA Examination. Approximately 77% of these loans by number and 82% by dollar amount were originated within the assessment area. The following table reflects the distribution of loans by loan type.

Lending Inside vs. Outside the Assessment Area								
	Inside Assessment Area				Outside Assessment Area			
Loan Types:	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Residential	17	85%	400	82%	3	15%	86	18%
Consumer	36	75%	177	65%	12	25%	95	35%

Commercial	17	74%	1,589	60%	6	26%	1,072	40%
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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. Further, the distribution of loans within each income category approximates the income characteristics of the population within the assessment area. Our analysis was based on the 17 residential loans, 34 consumer loans, and 16 commercial loans in our sample which were extended to borrowers within the assessment area. The following table details the results of our analysis.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes										
	Low Income Families		Moderate Income Families		Middle Income Families		Upper Income Families		Total	
Area Demographic Characteristics	21%		19%		21%		39%		100%	
Loan Types:	#	%	#	%	#	%	#	%	#	%
Mortgage	2	12%	5	29%	5	29%	5	29%	17	100%
Consumer	11	32%	11	32%	9	26%	3	9%	34	100%
Revenue Ranges	Less than \$100,000		\$100,000-\$500,000		\$500,000--\$1,000,000		Over \$1,000,000			
Commercial	3	19%	5	31%	4	25%	4	25%	16	100%

GEOGRAPHIC DISTRIBUTION OF LOANS:

A geographic analysis of lending activity within the bank's assessment area was not performed as it would not be meaningful. There are no low- or moderate-income geographies located within the assessment area.

RESPONSE TO COMPLAINTS:

Management has not received any written complaints related to CRA performance since the prior CRA Examination. A Fair Lending Examination was performed in conjunction with this examination. Based on the samples reviewed, no discriminatory practices were noted. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations.