



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

December 17, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Franklin National Bank
Charter Number 17055**

**I-30 and Texas Highway 37
Mt. Vernon, TX 75457**

**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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

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

- ◆ The bank's loan-to-deposit ratio is reasonable when compared to other area banks.
- ◆ A substantial majority of the bank's loans are extended within its assessment area.
- ◆ Credit activity is reasonably distributed to borrowers of different income levels.

DESCRIPTION OF INSTITUTION

Franklin National Bank of Mount Vernon is a \$46 million bank located at 539 W I-30, Mount Vernon, Texas. The bank is wholly owned by Franklin National Delaware Bankshares, Inc. which is wholly owned by Franklin National Bankshares, Inc. The bank has five full service branch offices other than the main branch in Mount Vernon. Branch offices are located at 101 North Main in Winnsboro, Texas; Hwy 154 in Yantis, Texas, 501 East Goode in Quitman, Texas; 402 South Texas Street in Emory, Texas; and, Hwy 11 in Como, Texas. Automated teller machines (ATMs) are located at all branch locations. The bank offers a variety of loan and deposit products, including Internet banking options. As of September 30, 2001, loans totaled \$22 million and represented 48.5% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio.

| Loan Category | \$ (000) | % |
|----------------------|-----------------|----------------|
| Commercial Loans | 5,133 | 23.37% |
| Real Estate Loans | 12,213 | 55.60% |
| Consumer Loans | 4,621 | 21.04% |
| Total | 21,967 | 100.00% |

There are no legal impediments or other factors, which inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior CRA Examination dated November 6, 1997.

DESCRIPTION OF THE ASSESSMENT AREA

The Board and management have designated four contiguous counties, Franklin, Hopkins, Wood and Rains, as their assessment area. The territory is not part of a metropolitan statistical area. The assessment area includes 20 middle-income tracts and 1 upper income tract. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude moderate-income geographies. The following table provides a description of the assessment area based on census data and 2001 Department of Housing and Urban Development (HUD) information.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA | |
|---|----------|
| <i>Population</i> | |
| Number of Families | 20,830 |
| Number of Households | 28,017 |
| <i>Geographies</i> | |
| Number of Census Tracts/BNA | 21 |
| % Low-Income Census Tracts/BNA | 0 |
| % Moderate-Income Census Tracts/BNA | 0 |
| % Middle-Income Census Tracts/BNA | 95.24% |
| % Upper-Income Census Tracts/BNA | 4.76% |
| <i>Median Family Income (MFI)</i> | |
| 1990 MFI for AA | \$25,768 |
| 1990 HUD-Adjusted MFI | \$21,344 |
| Update HUD-Adjusted MFI | \$24,585 |
| <i>Economic Indicators</i> | |
| Unemployment Rate | 2.94% |
| 2001 Median Housing Value | \$46,177 |
| % of Households Below Poverty Level | 18.50% |

The designated assessment area has a total population of 72,730. The distribution of families by income level within the assessment area consists of the following: 19.5% are low income, 17.1% are moderate income, 20.4% are middle income, and 43.0% are upper income.

A large segment of the local economy is agricultural based in dairy, beef cattle, and broiler production. Major employers within the assessment area include the local school districts, county government, health agencies, Texas Utilities, and Lowes Distribution Center.

Contacts with local community representatives revealed the primary community credit needs for the area are residential mortgages and consumer loans. The housing authority official also discussed the need for affordable housing.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The loan-to-deposit ratio of Franklin National Bank is reasonable given the bank's size, financial condition, and assessment of area credit needs. The bank's quarterly average loan-to-deposit ratio was 58.68% since the prior CRA examination in November 1997. The average loan-to-deposit ratio of banks within the assessment area for the same period was 57.58%. The quarterly average loan-to-deposit ratio for each bank in the assessment area is listed below.

| Institution | Assets (as of 09/30/01) (000) | Average LTD Ratio |
|---|----------------------------------|-------------------|
| First National Bank Mt Vernon | \$82,044 | 55.86% |
| First National Bank Winnsboro | \$127,636 | 63.47% |
| First National Bank Emory | \$72,861 | 55.16% |
| First National Bank Quitman | \$103,953 | 55.13% |
| Wood County National Bank Quitman | \$60,420 | 63.32% |
| Alliance Bank Sulphur Springs | \$335,120 | 55.22% |
| First State Bank Hawkins | \$30,836 | 64.60% |
| First National Bank Mineola | \$33,621 | 34.11% |
| City National Bank Sulphur Springs | \$161,603 | 70.27% |
| <i>Franklin National Bank of Mount Vernon</i> | <i>\$45,299</i> | <i>58.68%</i> |

LENDING IN ASSESSMENT AREA

A substantial majority of the bank's lending activity is located within the assessment area. We reviewed a sample of 25 residential mortgages, 24 consumer loans, and 25 commercial loans. Loans contained in the sample were originated since November 1997. This sample revealed that approximately 82.43% of the number of loans and 96.30% of the dollar amount of loans in our sample were extended within the bank's assessment area. 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) | % |
| Consumer | 20 | 83.33 | 120 | 70.97 | 4 | 16.67 | 49 | 29.03 |
| Commercial | 20 | 80.00 | 17,316 | 98.62 | 5 | 20.00 | 242 | 1.38 |
| 1-4 family dwelling | 21 | 84.00 | 562 | 58.48 | 4 | 16.00 | 399 | 41.52 |
| Total Reviewed | 61 | 82.43 | 17,998 | 96.30 | 13 | 17.57 | 691 | 3.70 |

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. Our sample of loans in the assessment area included 21 residential mortgages totaling \$562 thousand and 20 consumer loans totaling \$120 thousand. All loans in the sample were made since November 1997. While the distribution of consumer loans approximates the income characteristics of the assessment area, penetration of home purchase loans appears low. However, the bank’s holding company (Franklin National Delaware Bankshares, Inc.), owns and operates a mortgage company, which originates and sells residential mortgages into the secondary market. Many home loan applicants are encouraged to use this service, as generally the terms and conditions of loans sold into the secondary market are more favorable for those customers. In some situations the applicant does not qualify for a secondary market mortgage, and the bank will make the loan directly. In other situations, applicants prefer to keep the mortgage at the local level. Since November of 1997 the bank has only extended 73 residential mortgages at the bank level and we sampled approximately 34% of those loans. The following tables reflect the results of our analysis.

| RESIDENTIAL REAL ESTATE | | | | | | | | |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Families | 19.5% | | 17.1% | | 20.4% | | 43.00% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Loans from 11/1997 through YTD 2001 | 0 | 0 | 23.81 | 14.64 | 4.76 | 2.13 | 71.43 | 83.23 |

| CONSUMER | | | | | | | | |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 24.4 | | 14.4% | | 17.7% | | 43.5% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| Loans from 11/1997 through YTD 2001 | 19.05 | 23.46 | 14.29 | 12.30 | 38.10 | 28.61 | 28.57 | 35.64 |

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U. S. Census information, there are 3,734 businesses in the assessment area with revenues less than \$1 million. This number represents 87.65% of all businesses within the assessment area. Our sample of commercial loans in the assessment area included 20 loans

totaling \$1,629 thousand. The table below reflects the bank's lending distribution among large and small businesses within the assessment area.

| BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES | | |
|---|--------------|--------------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses | 87.65% | 5.85% |
| % of Bank Loans in AA # | 85.00% | 15.00% |
| % of Bank Loans in AA \$ | 87.19% | 12.81% |

The remaining 6.50% represents revenues not reported.

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.

RESPONSES TO COMPLAINTS

Management has not received any written complaints related to CRA performance since the prior CRA examination.

Fair Lending Review

An analysis of year 2000 public comments and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that performance of a comprehensive fair lending examination would not be necessary in connection with the CRA evaluation this year. The most recent comprehensive fair lending examination was performed in June 1997.