



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 28, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Panola National Bank
Charter Number 17967

1510 West Panola
Carthage, TX 75633-0000

Office of the Comptroller of the Currency

ADC-LONGVIEW Field Office
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.

Panola National Bank 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 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.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.

SCOPE OF EXAMINATION

This Performance Evaluation is an assessment of Panola National Bank's ability to meet the credit needs of the community in which it operates. The bank was evaluated under the Small Bank performance criteria. The procedures used include a lending test that evaluates the bank's record of meeting the credit needs of its assessment areas (AA) through its lending activities. Conclusions regarding the bank's lending performance for the Panola County AA are based on residential real estate, consumer, and commercial loans originated from January 1, 2009 to June 30, 2011, while conclusions regarding the bank's lending performance for the Harrison County AA are based on consumer loans originated from January 1, 2009 to June 30, 2011.

DESCRIPTION OF INSTITUTION

Panola National Bank is a \$124 million institution headquartered in Carthage, Texas. The bank is wholly owned by Panola National Bancshares. The main office is located at 1510 West Panola Street, Carthage, Texas. There is also a full service branch located at 2204 Victory Drive, Marshall, Texas. Panola National Bank is a retail oriented bank with focus on consumer, residential real estate, and commercial loan originations. As of March 31, 2011, loans totaled \$56 million, representing 45.14% of total assets. The following chart reflects the distribution of the bank's loan portfolio:

Loan Category	\$ (000)	%
Agricultural Loans	\$4,240	7.50%
Commercial Loans	\$10,950	19.37%
Residential Real Estate Loans	\$27,740	49.07%
Consumer Loans	\$11,717	20.73%
Other Loans	\$1,885	3.33%
Total	\$56,532	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 April 10, 2007.

DESCRIPTION OF ASSESSMENT AREA(S)

The Board has designated the entire counties of Panola and Harrison as its assessment area. The bank's main office is located in Panola County while a full service branch is located in Harrison County. This assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude any low or moderate-income geographies. While these two counties are contiguous, for analysis purposes we treated them as separate assessment areas as they are perceived as distinct and separate markets. Following are descriptions of the two counties.

Panola County Assessment Area

Panola County has no low or moderate income tracts, and 6 middle income tracts. The county has a total population of 22,756. The local economy is weak and competition is moderate with a number of other bank branches located in the county. The distribution of families by income level, regardless of census tract location, consists of the following: 18.83% are low income, 17.34% are moderate income, 21.84% are middle income, and 41.99% are upper income. Major employers in Panola County include Tyson Foods, Inc, Carthage Independent School District, Panola General Hospital, and Louisiana Pacific. Contact with a local business organization in Carthage revealed the primary community credit needs for the assessment area are residential mortgages and consumer loans. The following table provides a description of the Panola County area based on census data and 2010 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF PANOLA COUNTY	
Population	
Number of Families	6,475
Number of Households	8,822
Geographies	
Number of Census Tracts/BNA	6
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	0.00%
% Middle-Income Census Tracts/BNA	100%
% Upper-Income Census Tracts/BNA	0.00%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$37,790
2010 HUD-Adjusted MFI	\$46,500
Economic Indicators	
Unemployment Rate	6.60%
2000 Median Housing Value	\$53,161
% of Households Below Poverty Level	16.54%

Harrison County

Harrison County has no low income tracts, two moderate income tracts, four middle income tracts, and three upper income tracts. The county has a total population of 62,110. The distribution of families by income level, regardless of census tract location, consists of the following: 18.23% are low income, 15.82% are moderate income, 19.07% are middle income, and 46.88% are upper income. Major employers in Harrison County are Eastman Kodak, Nomac, Good Shepherd Medical Center, and Blue Cross and Blue Shield. Competition in Harrison County is strong with numerous branches of other banks and credit unions in the county. The local economy is weak with an unemployment rate of 8.81%. The following table provides a description of Harrison County based on 2000 census data and 2010 HUD information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF HARRISON COUNTY	
Population	
Number of Families	17,084
Number of Households	23,141
Geographies	
Number of Census Tracts/BNA	9
% Low-Income Census Tracts/BNA	0.00%
% Moderate-Income Census Tracts/BNA	22.22%
% Middle-Income Census Tracts/BNA	44.44%
% Upper-Income Census Tracts/BNA	33.33%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$41,008
2010 HUD-Adjusted MFI	\$46,500
Economic Indicators	
Unemployment Rate	8.81%
2000 Median Housing Value	\$60,106
% of Households Below Poverty Level	16.43%

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 loans are within the bank's assessment area. Additionally, the distribution of loans demonstrates a reasonable disbursement throughout the assessment area as well as a reasonable penetration among borrowers of different income levels and businesses of different sizes.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of Panola National Bank is reasonable given the bank's size, financial condition and assessment area credit needs. Panola National Bank's loan-to-deposit ratio is comparable to other banks headquartered in the bank's assessment area. The bank's quarterly average loan-to-deposit ratio is 54.95% 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 54.86%.

Institution	Assets (000s) (as of 3/31/11)	Average LTD Ratio
Panola National Bank	\$124,066	54.95%
Community Bank	\$152,778	86.65%
First State Bank and Trust Company	\$442,935	37.53%
The First State Bank	\$38,422	40.42%

Lending in Assessment Area

A substantial majority of the bank's lending activity is located within its assessment areas. Our review focused on the bank's main product lines: residential, consumer, and commercial loans in Panola County, and consumer loans in Harrison County. We reviewed a sample of 20 residential loans, 40 consumer loans, and 20 commercial loans. This sample reflected approximately 90% of the number of loans and 80% of the dollar amount of loans were extended in Panola and Harrison 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	19	95.00%	\$1,577	96.46%	1	5.00%	\$58	3.54%
Consumer	39	97.50%	\$559	99.29%	1	2.50%	\$4	0.71%
Commercial	15	75.00%	\$1,911	65.82%	5	25.00%	\$992	34.18%
Total Reviewed	73	91.25%	\$4,047	79.34%	7	8.75%	\$1,054	20.66%

Source: Loan Sample

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

Panola County

The distribution of loans within Panola County reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. There is no penetration to low-income individuals for residential housing for Panola County. However, borrowing for residential housing by low-income individuals is limited due to the low level of affordable housing stock available in the area. In addition 16.54% of the households in the county are below the poverty level. The distribution of consumer loans reflects a reasonable penetration among borrowers of different income levels. The distribution of consumer loans to low and moderate income borrowers is near to the demographics of the assessment area.

Borrower Distribution of Residential Real Estate Loans in Panola County									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% 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 Number of Loans
% of Total	18.40%	0.00%	16.24%	15.00%	19.83%	10.00%	45.54%	60.00%	15.00%

Source: Loan Sample; US Census Data

Borrower Distribution of Consumer Loans in Panola County									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of Number of Loans
% of Total	25.29%	22.73%	15.23%	18.18%	17.81%	18.18%	41.66%	31.82%	9.09%

Source: Loan Sample; US Census Data

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 1,542 businesses with revenues less than \$1 million in Panola County. This number represents approximately 80% of all businesses in Panola County with income reported within the assessment area. Based on census information, there are 1,936 businesses in the assessment area, although revenue information was not reported for 342 of the businesses. Our analysis was performed based on businesses 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 showed that the number of loans to businesses with less than \$1,000,000 in revenues reasonably reflects the distribution of small businesses in the assessment area.

Borrower Distribution to Businesses in Panola County				
Business Revenues (or Sales)	<= \$1,000,000	> \$1,000,000	Unavailable	Total
% of AA Businesses	79.65%	2.69%	17.67%	100.00%
% of Bank Loans in AA by #	71.43%	28.57%	0.00%	100.00%
% of Bank Loans in AA by \$	31.42%	68.58%	0.00%	100.00%

Source: Loan Sample; US Census Data

Harrison County

The distribution of loans within Harrison County reflects a reasonable penetration among borrowers of different income levels. Lending in the Harrison county assessment area is very competitive and the focus of the bank is primarily on consumer loans. Because of this only consumer loans were reviewed as the primary product for this assessment area. The number of loans to low income borrowers is near that of the AA’s demographics. Furthermore, the number of loans to moderate income borrowers is well above the percentage of moderate income households.

Borrower Distribution of Consumer Loans in Harrison County									
Borrower Income Level	Low		Moderate		Middle		Upper		Unavailable
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of Number of Loans
% of Total	18.23%	17.86%	15.82%	26.79%	19.07%	25.00%	46.88%	28.57%	1.79%

Source: Loan Sample; US Census Data

Geographic Distribution of Loans

A geographic analysis of lending activity within the Panola County assessment area was not performed. There are no low or moderate-income geographies located in Panola County, and therefore, an analysis would not be meaningful. The geographic distribution of consumer loans in Harrison County reflects a reasonable penetration throughout the assessment area. There are no low-income census tracts in the Harrison County AA but two moderate income tracts. The two moderate census tracts each contain a local college. As a result, census data can sometimes be unreliable for these census tracts. However, penetration of lending to moderate income tracts closely mirrors census data.

Geographic Distribution of Consumer Loans in Harrison County								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
% of Total	0.00%	0.00%	13.25%	13.97%	45.20%	63.33%	41.55%	22.70%

Source: Loan Sample; US Census Data

Responses to Complaints

Panola National Bank 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.