



SMALL BANK

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

PUBLIC DISCLOSURE

April 10, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Panola National Bank
Charter Number 17967**

**1510 West Panola
Carthage, TX 75633**

**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.

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 good based on its size and complexity.
- A 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.

DESCRIPTION OF INSTITUTION

Panola National Bank is a \$90 million bank, which is wholly owned by Panola National Bancshares. The main office is located at 1510 West Panola, Carthage, TX and a full service branch is located at 2203 Victory Drive, Marshall, Texas. As of December 31, 2006, loans totaled \$46 million and represented 53% of the banks assets. There are no legal impediments or other factors that inhibit the bank's ability to meet the credit needs of the community. The bank was rated satisfactory during the prior Community Reinvestment Act (CRA) Examination dated November 4, 2002. The following chart reflects the distribution of the bank's loan portfolio:

Loan Category	\$ (000)	%
Agricultural Loans	\$2,619	5.71%
Commercial Loans	\$5,558	12.11%
Residential Real Estate Loans	\$25,466	55.49%
Consumer Loans	\$12,251	26.69%
Total	\$45,894	100.00%

DESCRIPTION OF AREAS

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 low and 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

Panola National Bank's main office is located in Carthage, Texas in Panola County. 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 stable and competition is moderate with branches of other banks 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 2006 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%
Median Family Income (MFI)	
2000 MFI for AA	\$37,790
2006 HUD-Adjusted MFI	\$43,100
Economic Indicators	
Unemployment Rate	2.71%
2000 Median Housing Value	\$53,161
% of Households Below Poverty Level	16.54%

Harrison County

The bank has a full service branch located in Marshall, Texas in 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 Republic Industries, Blue Cross and Blue Shield, Home & Garden, and BICC Cable Company. Competition in Harrison County is strong with branches of other banks and credit unions in the county. The local economy is considered stable with an unemployment rate of 3.39%. The following table provides a description of Harrison County based on census data and 2006 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%
Median Family Income (MFI)	
2000 MFI for AA	\$41,008
2006 HUD-Adjusted MFI	\$43,100
Economic Indicators	
Unemployment Rate	3.39%
2000 Median Housing Value	\$60,106
% of Households Below Poverty Level	16.43%

CONCLUSIONS ABOUT 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 average loan-to-deposit ratio is 66.70% 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 58.37%.

Institution	Assets (000s) (as of 12/31/06)	Average LTD Ratio
Panola National Bank	\$87,426	66.70%
Community Bank	\$71,458	88.71%
First State Bank and Trust Company	\$333,653	33.45%
The First State Bank	\$30,916	44.63%

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 51 residential loans, 47 consumer loans, and 42 commercial loans. This sample reflected approximately 90% of the number of loans and 87% 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	42	82.35%	\$3,397	76.89%	9	17.65%	\$1,021	23.11%
Consumer	42	89.36%	\$669	90.04%	5	10.64%	\$74	9.96%
Commercial	42	100.00%	\$3,418	100.00%	0	0.00%	\$0	0.00%
Total Reviewed	126	90.00%	\$7,484	87.24%	14	10.00%	\$1,095	12.76%

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 home purchases 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 an excellent penetration among borrowers of different income levels. The distribution of consumer loans to low and moderate income borrowers exceeds the percentage of low and moderate income households in the assessment area.

RESIDENTIAL REAL ESTATE LOANS IN PANOLA COUNTY								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	18.83%		17.34%		21.84%		41.99%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0.00%	0.00%	10.34%	6.81%	17.34%	7.32%	72.41%	85.87%

CONSUMER LOANS IN PANOLA COUNTY								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	25.13%		13.64%		18.49%		42.75%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	32.00%	32.45%	16.00%	11.13%	32.00%	31.51%	20.00%	24.90%

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 974 businesses with revenues less than \$1 million in Panola County. This number represents approximately 95% of all businesses in Panola County with income reported within the assessment area. Based on Census information, there are 1,921 businesses in the assessment area, although revenue information was not reported for 897 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.

Borrower Distribution of Loans to Businesses Panola County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	50.70%	2.60%	46.69%	100%
% of Bank Loans in AA by #	85.00%	15.00%	0.00%	100%
% of Bank Loans in AA by \$	79.86%	20.14%	0.00%	100%

Harrison County

The distribution of loans within Harrison County reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes. While the penetration to low income individuals for home purchase and consumer loans for Harrison County was below the level compared to the demographics of the county, home purchase and consumer loans to moderate income families and households exceeds the percentages by number of moderate families and households. Borrowing for home purchases by low-income individuals is limited due to the low level of affordable housing stock available in the area. In addition 16.43% of the households in the county are below the poverty level.

RESIDENTIAL REAL ESTATE LOANS IN HARRISON COUNTY								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families ¹	18.23%		15.82%		19.07%		46.88%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	9.09%	6.33%	18.18%	7.77%	9.09%	7.78%	63.64%	78.12%

CONSUMER LOANS IN HARRISON COUNTY								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ²	25.36%		15.84%		17.56%		41.24%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	4.55%	0.76%	18.18%	9.13%	36.36%	50.23%	40.91%	39.88%

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 2,713 businesses with revenues less than \$1 million in Harrison County. This number represents approximately 95% of all businesses in Harrison County with revenues reported within the assessment area. Based on Census

information, there are 4,370 businesses in the county, although revenue information was not reported for 2,857 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 one million.

Borrower Distribution of Loans to Businesses Harrison County				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	62.80%	3.30%	34.62%	100.00%
% of Bank Loans in AA by #	91.30%	5.04%	0.00%	100.00%
% of Bank Loans in AA by \$	80.28%	8.70%	0.00%	100.00%

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 loans in Harrison County reflects a good penetration throughout the assessment area. There are no low-income census tracts in the Harrison County assessment areas.

RESIDENTIAL REAL ESTATE								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Owner Occupied ⁴	0.00%		10.25%		47.59%		42.16%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0.00%	0.00%	18.18%	27.63%	45.45%	28.56%	36.36%	43.81%

CONSUMER								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households ⁵	0.00%		13.25%		45.20%		41.55%	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0.00%	0.00%	18.18%	18.80%	45.45%	26.59%	36.36%	54.61%

BUSINESS LOANS								
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Businesses ⁶	0.00%		22.22%		44.44%		33.33%	
	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
	0.00%	0.00%	21.74%	52.73%	65.22%	40.37%	13.04%	6.90%

RESPONSES TO COMPLAINTS

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

FAIR LENDING REVIEW

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