



SMALL BANK

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

PUBLIC DISCLOSURE

January 11, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**101 W L Dodson East
Naples, TX 75568**

**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.”

Morris County National Bank (MCNB) 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 its assessment area.
- Credit activity is reasonably distributed to borrowers of different income levels and to businesses of different sizes.

DESCRIPTION OF INSTITUTION

Morris County National Bank (MCNB) is an \$80 million bank which is wholly owned by Morris County Bancshares, Inc. The bank is located at 101 W L Dodson East, Naples, Texas and has a full service branch located in Queen City, Texas. As of September 30, 2006, loans totaled \$53 million and represented 66% of the bank's total assets. The following chart reflects the distribution of the bank's loan portfolio.

Loan Category	\$ (000)	%
Commercial Real Estate Loans	8,931	16.84
Commercial Loans	9,818	18.50
Agriculture Real Estate Loans	3,318	6.25
Agriculture Loans	4,461	8.41
Residential Real Estate Loans	14,858	28.00
Consumer Loans	11,672	22.00
Total	53,058	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 March 11, 2002.

DESCRIPTION OF ASSESSMENT AREA

The Board has designated Morris County, Cass County and census tract 9504 in Titus County as the bank's assessment area. The assessment area includes no low or moderate-income tracts, with all tracts designated as middle-income areas. The assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low- or moderate-income geographies.

The following table provides a description of the bank's assessment area based on census data and 2005 Department of Housing and Urban Development (HUD) information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	13,727
Number of Households	18,956
<i>Geographies</i>	
Number of Census Tracts/BNA	11
% Low-Income Census Tracts/BNA	0%
% Moderate-Income Census Tracts/BNA	0%
% Middle-Income Census Tracts/BNA	100.00%
% Upper-Income Census Tracts/BNA	0%
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	\$36,380
2005 HUD-Adjusted MFI	\$42,000
<i>Economic Indicators</i>	
Unemployment Rate	2.42%
2005 Median Housing Value	\$50,293
% of Households Below Poverty Level	18.00%

The bank's designated assessment area has a total population of 47,878. The distribution of families by income level, regardless of census tract location, consists of the following: 22.17% are low income, 18.24% are moderate income, 20.66% are middle income, and 38.93% are upper income. Major employers in Morris and Cass Counties include Lone Star Steel, International Paper Company, Wal-Mart, and the Texas Department of Transportation. Additionally there are several retail, educational and medical facilities. Competition in Morris County is moderate with facilities located in other area communities, while in Cass County competition is considered strong with several branches of other banks and credit unions located in the county. The local economy is considered stable with an unemployment rate of 2.42%.

A contact with a local business organization in Naples revealed the primary community credit needs for the assessment area are residential mortgages and consumer loans.

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 within the assessment area reflects a reasonable penetration among borrowers of different income levels and businesses of different sizes.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of MCNB is reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 72.84% since the prior CRA examination in March 2002. The average loan-to-deposit ratio of banks within the assessment area, regardless of size, for the same time period, was 65.69%.

Institution	Assets (000s) (as of 9/30/06)	Average LTD Ratio
Morris County National Bank, Naples	80,000	72.84%
First National Bank of Linden	59,000	44.71%
First National Bank of Hughes Springs	148,000	62.44%
First State Bank, Avinger	15,000	75.47%
Lone Star State Bank	36,000	85.85%
Bloomberg State Bank	11,000	59.96%

Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed a sample of 23 residential mortgages, 21 commercial loans and 25 consumer loans which originated since March 2002. Due to the bank's location within its assessment area and its focus on meeting local credit needs, the majority of loans sampled 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)	%
Residential	21	91.30	1,395	89.47	2	8.70	164	10.53
Commercial	20	95.24	947	86.33	1	4.76	150	13.67
Consumer	21	84.00	249	82.38	4	16.00	53	17.62
Total Reviewed	62	89.86	2,592	87.58	7	10.14	367	12.42

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. The distribution of home purchase and consumer loans generally approximates the income characteristics of the assessment area. While home purchase loans to low- and moderate-income families are at a low level compared to the demographics of the assessment area, consumer loans are near to the percentage of low-income households and exceed the percentage of moderate-income households. Borrowing for home purchases by low- and moderate-income individuals is limited due to the low level of affordable housing stock available in the area. Furthermore, approximately 18% of the households in Morris County are below poverty level, limiting their ability to afford the purchase of a home.

RESIDENTIAL REAL ESTATE								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Families	22.17		18.24		20.66		38.93	
	% of Number	% of Amount						
	9.52	3.44	9.52	3.96	23.81	26.58	57.15	66.02

CONSUMER								
Borrower Income Level	LOW		MODERATE		MIDDLE		UPPER	
% of AA Households	27.28		15.57		17.40		39.74	
	% of Number	% of Amount						
	19.05	7.81	38.10	26.88	28.57	46.86	14.28	18.45

The distribution of business loans reflects a reasonable penetration among businesses of different sizes. Based on U.S. Census information, there are 2,772 businesses in the assessment area. Our analysis was performed based on businesses with reported income. However, this number may not accurately reflect the distribution of small businesses within the assessment area, as revenue information was not reported for a significant number of the businesses. . 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 SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses	93.23	6.77
% of Bank Loans in AA #	80.00	20.00
% of Bank Loans in AA \$	85.96	14.04

Geographic Distribution of Loans

All census tracts within the bank's assessment area are middle-income geographies. There are no low- or moderate-income geographies in the assessment area. Therefore, we did not complete a review of the bank's geographic distribution of loans.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

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