



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**February 9, 2004**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First Southern National Bank  
Charter Number 9855**

**80 Bank Street  
Stevenson, AL 35772**

**Comptroller of the Currency  
Nashville Field Office  
5200 Maryland Way, Suite 104  
Brentwood, TN 37027**

**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.**

## **General Information**

The Community Reinvestment Act (CRA) requires that 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 CRA performance of First Southern National Bank (First Southern), Stevenson, Alabama prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of February 9, 2004. 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.**

We assigned the rating based on the following information:

- The bank's loan-to-deposit ratio is reasonable.
- The bank originated a substantial majority of its loans within their assessment area (AA).
- Analysis reflects good penetration among businesses of different sizes and individuals of different income levels.
- No public complaints related to CRA have been filed since the previous performance evaluation.

## **DESCRIPTION OF INSTITUTION**

First Southern is a wholly-owned subsidiary of First Bancshares of Stevenson, Inc., a one-bank holding company, headquartered in Stevenson, Alabama. At December 31, 2002, the holding company had \$13,163,000 in total assets. First Southern's total assets for fiscal year end 2002 and 2001 were \$137,448,000 and \$109,496,000, respectively. At December 31, 2002, First Southern's net loans comprised 55.55 percent of total assets. The bank is primarily a residential mortgage lender. However, the bank is not a Home Mortgage Disclosure Act (HMDA) reporter. The bank is also a commercial lender. The bank received an outstanding CRA rating at its last CRA performance evaluation dated April 14, 1997. There are no legal or financial impediments to First Southern's ability to meet the credit needs of its AA.

First Southern provides a full range of banking services in its primary market area of Jackson and Dekalb County, Alabama. The bank has a main office and four full-service branches. The main office is located off Highway 72 in the city limits of Stevenson. One branch each is located in Higdon, Scottsboro, Rainsville, and Fort Payne, Alabama. There is an automated teller machine (ATM) located at each branch office. There are no other free standing ATMs. There has not been any branch closed since the previous performance evaluation.

Product Category	Gross Loans as of December 31, 2002*	
	Dollar (000's)	Percent
Commercial & Industrial Including Commercial Real Estate	13,609	17.82
Residential Mortgage Loans	35,261	46.19
Construction & Land Development	3,173	4.16
Individuals	17,669	23.14
All Other	2,457	3.22
Farmland and Agriculture	4,178	5.47
<b>Total</b>	<b>76,347</b>	<b>100</b>

\* Data obtained from Call report

## DESCRIPTION OF THE ASSESSMENT AREA

The bank's AA is designated as Jackson County census tracts 9501 through 9511 and Dekalb County census tracts 9601 through 9614. The AA meets the requirements of the regulation and includes all the census tracts of each county. There are no low- or moderate-income census tracts in the bank's AA. Upper income census tracts are 9509 (Jackson County) and 9612 (DeKalb County). The remaining census tracts are all middle-income census tracts. Of the twenty-five census tracts, twenty-three are designated middle-income (92%) and two are designated upper-income (8%).

The bank's main office is located in Jackson County census tract 9503 (Middle). The Higdon and Scottsboro Branches are also located in Jackson County census tracts 9501 (Middle) and 9509 (Upper), respectively. Two new branches came on line during 2002 through acquisition from a competitor bank. They were the Rainsville and Fort Payne Branches. Both branches are located in Dekalb County census tract 9603 (Middle) and census tract 9611 (Middle), respectively. All offices are located in either Jackson or Dekalb County.

Jackson County is conveniently located in Alabama's northeastern corner bordering Georgia to the east and Tennessee to the north. It is nestled in the foothills of the Appalachian Mountains, with the Tennessee River winding its way through the county. Interestingly, Jackson County is home to nearly 1,500 charted caves, over half of all the caves in the state. The county is centrally located. It is less than an hour's drive to Huntsville, Alabama and Chattanooga, Tennessee. Highway 72 is a major four-lane corridor connecting Jackson County to both Huntsville and I-24/Chattanooga. Stevenson serves as a bedroom community for many residents who commute elsewhere for employment. The area offers an abundance of outdoor recreation activities including fishing, boating, hunting, and golfing.

The AA encompasses two counties with total population of 102,447 for 2002. Economically, Jackson County continues to struggle while Dekalb County's economy is good. Jackson County suffered during the 1980's and 1990's with the closure of the once dominant textile industry. During the same time, the nearby TVA nuclear plant was "moth balled." Local residents relied heavily on these industries for employment.

Some major employers in Stevenson are: Shaw Industries, a carpet mill; TVA-Widows Creek

Fossil Plant, generator of electric power; and, Smurfit-Stone Container Board Mill Division, a manufacturer of packaging boxes. Scottsboro, which is located in Jackson County, is home to Unclaimed Baggage Center. The contents of unclaimed airline baggage are sold at the center. Merchandise includes personal electronics, clothing, sporting goods, luggage, books, and jewelry.

At December 31, 2002, Jackson and Dekalb Counties unemployment rate was 7% and 4.7%, respectively, compared to 5.9% for the State and 6% for the Nation. For 2002, the average unemployment rate for Jackson and Dekalb Counties was 8.4% and 4.5% versus 5.9% for the State and 5.8% nationally. On average, unemployment within the AA has been higher than the State and Nation.

The following table includes the general demographic data describing the AA.

Demographic Information for Assessment Area						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	25	0	0	92%	8%	0
Population by Geography	102,447	0	0	94.3%	5.7%	0
Owner-Occupied Housing by Geography	30,220	0	0	93.9%	6.1%	0
Businesses by Geography	4,768	0	0	84.7%	5.3%	0
Farms by Geography	454	0	0	97.6%	2.4%	0
Family Distribution by Income Level	30,382	19.8%	16.6%	21.6%	42%	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	11,072	0	0	97.1	2.9	0
Median Family Income HUD Adjusted Median Family Income for 2003 Households Below the Poverty Level	= \$24,084 = \$39,300 20%	Median Housing Value Unemployment Rate		= \$41,276 = 7%/4.7%(#)		

(\*) The NA category consists of geographies that have not been assigned an income classification.

(#) 12-31-2002 Unemployment Rate Jackson County 7%; Dekalb County 4.7%

Source: 1990 U.S. Census, and 2002 HUD updated MFI.

**COMMUNITY CONTACTS** – We conducted one community contact with a local realtor. The realtor stated that First Southern is adequately serving the needs of the community and local businesses. It was also reported that as a group the banking industry is adequately serving the needs of the community and local businesses. The community contact did not reveal any unmet credit needs in the bank’s AA.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio – Meets the Standard for Satisfactory Performance

First Southern's loan to deposit ratio is reasonable. The average loan-to-deposit ratio for the twenty-three quarters from June 30, 1998 to December 31, 2002 was 59.64%. The highest loan-to-deposit ratio was 62.46% as of December 31, 2002 while the lowest ratio was 56.37% as of June 30, 1998. As of December 31, 2002, the bank's loan-to-deposit ratio was 62.46%.

Two similarly situated community banks, three regional bank offices, and various finance companies afford moderate to intense competition for First Southern in Jackson County. When compared to the two community banks as of December 31, 2002, First Southern's loan-to-deposit ratio is in the middle. These community banks had \$307 million and \$96 million in total assets as of December 31, 2002. The average loan-to-deposit ratio for the two-competitor banks for the twenty-three quarters from June 30, 1998 to December 31, 2002 was 78.99% and 54.93%, respectively. Similarly, the highest loan-to-deposit ratios were 84.81% (December 31, 2000) and 62.31% (June 30, 2000), respectively. For the same period, the lowest loan-to-deposit ratios were 44.18% (December 31, 2002) and 67.35% (March 31, 1999). Additional competition is afforded by local credit unions.

As of June 30, 2003, First Southern controlled 17.60% (second) and 4.12% (ninth) of the deposit markets in Jackson and Dekalb Counties. A larger community bank controlled 32.56% of the Jackson County deposit market. The three regional bank offices in Jackson County controlled 15.80%, 8.22%, and 6.15% of the deposit market. Branches of two nearby community banks controlled 4.38% and 1.46% of the remaining deposit market. Two large regional banks controlled 20.05% and 13.74% of the deposit market in Dekalb County. A federal savings bank controlled 10.78% of the Dekalb County deposit market. Eight other community banks and/or their branches controlled from 9.34% to 3.02% of the remaining deposit market.

### Lending in the Assessment Area – Meets the Standard for Satisfactory Performance

The bank originated a substantial majority of its total loans within their AA. For loans to small businesses, 85% of the number and 64% of the dollar amount were within the AA. For home mortgage loans, 99% of both the number and dollar amount were within the AA. The analysis of lending in the bank's AA included a sample of commercial loans, the bank's primary loan type. The bank is not a HMDA reporter. Since home mortgage loans are a primary loan product, we also included information taken from the bank's home loan register.

#### Lending Inside the Assessment Area

Evaluation Period: January 1, 2000 through December 31, 2002								
Assessment Area:	Total Sampled Small Loans to Businesses				Total Home Loan Register Home Mortgage Loans			
	#	%# of Total	\$ (000)	;%\$ of Total	#	%# of Total	\$ (000)	;%\$ of Total
First Southern's AA	61	85%	6,264	64%	69	99%	4,387	99%

\*\* Home Loan Register reported Home Mortgage loans include loans originated 01/01/2000 through 12/31/2002.

**Lending to Businesses of Different Sizes and Borrowers of Different Incomes – Meets the Standard for Satisfactory Performance**

The distribution of the bank’s primary lending product, business loans, given the demographics of the AA, reflects good penetration by number and dollar amounts among business of different sizes. The analysis of lending to businesses of different sizes was completed using information generated by the bank inside the AA.

The distribution of home mortgage loans among borrowers of different income levels (including low-and moderate-income) also reflects good penetration in the demographics of the AA in all categories except moderate- and middle-income borrowers. The analysis was completed using home loan register data for the periods January 1, 2000 through December 31, 2002.

**Borrower Distribution of Small Loans to Businesses**

Evaluation Period: January 1, 2000 through December 31, 2002									
Assessment Area:	Business With Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size					
	% of Businesses in First Southern’s AA	%# Bank Loans	%\$ Bank Loans	\$100,000 or less		>\$100,000 to \$250,000		>\$250,000 to \$1,000,000	
				#	\$	#	\$	#	\$
First Southern’s AA	78.9%	85.3%	63.9%	63.9%	16.9%	18.0%	23.3%	13.1%	12.6%

\*Percentage of Businesses in First Southern’s AA is the percentage of business based on 1990 Census information.

The above table also illustrates the number and dollar volume of loans by size and the percentage of small loans to businesses compared to the percentage of business that are small. The distribution of loans to small businesses (businesses with \$1 million or less in gross annual revenues) of 85.3% is good when compared to the number of small businesses in the AA of 78.9%. Also, the distribution by loan size is also good with 63.9% of the number of business loans made in the AA was \$100,000 or less.

**Borrower Distribution of Home Mortgage Loans**

Evaluation Period: January 1, 2000 through December 31, 2002										
Assessment Area:	Total Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers	
	#	% of Total	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans	% Families	% Bank Loans
First Southern’s AA	69	100	7.3%	7.7%	17.4%	8.3%	20.3%	15.1%	55.0%	68.9%

• Percentage of Families is based on 1990 Census information.

The above table illustrates the distribution of home mortgage loans within the income levels compared to the percentage of families in each income level. Based on a review of the bank's home loan register data for this loan product, the distribution of home mortgage loans to both low- and moderate-income borrowers is considered reasonable given the demographics within the AA. Census data information reflects that 7.3% and 17.4% of the families in the AA are low- and moderate-income families. It would be difficult to afford and maintain a home even at the top of the low- and moderate-income ranges with 20% of families in the AA having incomes below poverty level.

### **Geographic Distribution of Loans**

There are no low- or moderate-income census tracts within the bank's AA; therefore, we did not perform an analysis of geographic distribution of loans since the findings from the analysis would be meaningless.

### **Responses to Complaints**

First Southern has not received any CRA-related complaints since the previous Performance Evaluation.

### **Fair Lending Review**

An analysis of public comments, consumer complaint information, and HMDA lending data was performed according to the OCC's risk based fair lending approach. Based on its analysis of information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with this CRA evaluation.