

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act ("CRA") performance of Fidelity Federal Savings Bank ("Fidelity Federal" or "Institution"), prepared by the Office of Thrift Supervision ("OTS").

The evaluation represents the OTS's current assessment and rating of Fidelity Federal's CRA performance based on an examination conducted as of January 3, 1995. It does not reflect any CRA activities that may have been initiated or discontinued by the Institution after the completion of the examination.

The purpose of the CRA of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The CRA requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the federal financial supervisory agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of Fidelity Federal's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under five performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings:

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based upon the findings presented below, Fidelity Federal is rated "Outstanding record of meeting community credit needs."

CRA PERFORMANCE CATEGORIES

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the Institution to ascertain the credit needs of its community, including the extent of the Institution's efforts to communicate with members of its community regarding the credit services being provided by the Institution.

Fidelity Federal has implemented meaningful and productive efforts to ascertain the credit needs of all segments of its delineated community and to improve the overall awareness of the credit services offered by the Institution. The Institution maintains regular contact with civic groups, churches, and realtors in an effort to obtain information about the financial needs of the delineated community. Organizations with which the Institution is affiliated include the following:

- The Dalton-Whitfield Chamber of Commerce
- The Murray County Chamber of Commerce
- The Dalton Board of Realtors
- The Homebuilders Association of Murray County
- The Whitfield County Economic Development Board
- The Downtown Dalton Development Authority

Management regularly contacts leaders in the local Hispanic community in order to ascertain the particular credit needs of that segment of the population. To better serve its Spanish-speaking customers, the Institution employs a bilingual mortgage originator and two bilingual customer service representatives. Fidelity Federal has also established bilingual capability at its ATMs, and offers service brochures printed in Spanish. Management gave a presentation about the fundamentals of the United States banking system, as well as information about the Institution's various financial services, at a Hispanic Heritage Celebration community meeting in October 1993, and at a Centro Latin Hispanic Community Center meeting in January 1994. Fidelity Federal's Spanish-speaking employees served as interpreters at these presentations.

Management also maintains contact with prominent businessmen and ministers in the local black community. Fidelity Federal has made numerous loans to predominantly black churches in the area, and has developed strong banking relationships with the members of these churches.

Management made presentations to the Dalton-Whitfield Senior Center and the local chapter of the American Association of Retired Persons during July 1993. These presentations were conducted in order to determine which financial services are considered most important to senior citizens, and how Fidelity Federal could best serve the needs of that segment of the community.

Fidelity Federal periodically conducts public surveys to gain community input regarding financial service and credit needs. During August 1993, 120 questionnaires were mailed to low- to moderate-income ("LMI") individuals within the delineated community. The feedback received was reported to the Board and incorporated in the Institution's marketing and product development.

Fidelity Federal also relies on its loan officers and customer service representatives to assess the market demand for new financial products and services. The Institution has recently implemented a formal loan officer call program for the purpose of increasing consumer and commercial loan volume. This program includes targeted calls to LMI individuals and minority-owned businesses in an effort to establish new banking relationships.

As a result of its ascertainment efforts, Fidelity Federal introduced three new credit products and one new deposit product during the review period:

- SBA-guaranteed commercial loans (June 1993).
- VISA and MasterCard credit cards (September 1993). The initial credit decisions are made by Fidelity Federal loan officers and the cards are issued in the Institution's name; however, the accounts are serviced by Telecredit Services of Tampa, Florida.
- Home equity lines of credit (October 1993).
- "Budget Checking" service (July 1994). This demand deposit account product has no minimum balance requirement other than an initial opening deposit of \$100, and carries a \$6 flat monthly fee with no limit on the number of checks that may be written.

Assessment Factor C - The extent of participation by the Institution's Board of Directors in formulating policies and reviewing the Institution's performance with respect to the purposes of the CRA.

Fidelity Federal's Board has adopted a comprehensive CRA Policy Statement which conforms to applicable regulatory requirements and contains some of the additional information encouraged to be included in CRA statements by the Federal Financial Institutions Examination Council in its "Statement of the Federal Financial Supervisory Agencies Regarding the Community Reinvestment Act." As recommended in the preceding compliance examination report, the Board has adopted a formal CRA Plan which sets forth goals, objectives, and a methodology for assessing the Institution's performance relative to the CRA. This plan incorporates a "Second Look" review process which is designed to ensure that credit products are being made available to all segments of the delineated community. The "Second Look Committee" reviews all non-qualifying applications received from LMI individuals in order to determine if the loan could be granted by making prudent and allowable underwriting exceptions. In addition, the Committee regularly reviews rejected and approved applications from both minority and non-minority applicants to ensure that underwriting standards are being applied consistently. The review of Board minutes confirms that the CRA Statement and CRA Plan are reviewed at least annually.

The Board consists of 11 members, all of whom live within the delineated community and are personally involved with a variety of local civic and charitable organizations. The Board is actively involved in formulating CRA policy and monitoring the Institution's overall CRA performance. The review of Board minutes disclosed that it periodically evaluates the Institution's CRA position through the review of CRA self-assessment reports and quarterly lending activity reports which include analyses of geographic lending patterns, LMI penetration, and minority lending statistics. The minutes also document the Board's support of Fidelity Federal's participation in programs designed to help meet identified community credit needs, and its commitment to the training of Institution personnel on all compliance-related issues. During the review period, the chief executive officer attended a CRA seminar conducted by the Federal Home Loan Bank of Atlanta, and Management conducted various CRA training classes for the Institution's loan officers and customer service representatives. The Board has also received periodic training on Directors' responsibilities with regard to CRA. In May 1993, the Board reviewed and discussed "Directors Role in CRA", a pamphlet which

summarizes the characteristics of a successful CRA program and addresses such topics as ways individual directors can contribute to the Institution's CRA performance and methods to enhance community contacts for improving feedback on products and services.

II. **MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED**

Assessment Factor B - The extent of the Institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the Institution.

Fidelity Federal has effectively utilized newspaper, radio, and television advertising to promote its credit products and financial services to all segments of the local community, including the Spanish-speaking population.

During February 1993, Fidelity Federal performed a series of public service announcements (not paid advertisements) for a local radio station providing "helpful hints" on such topics as qualifying for mortgage loans, paying-off mortgage loans early, and establishing savings plans.

In July 1994, Fidelity Federal presented a Community Homebuyer's Educational Program for first-time homebuyers, given in accordance with Federal National Mortgage Association ("FNMA") guidelines. The program was advertised extensively via a 15-minute television "infomercial", as well as through newspaper and radio advertisements. Over 60 individuals attended the seminar, of which approximately 75 percent had low-to-moderate income, and approximately 15 percent were minority. The FNMA guidebook entitled "A Guide to Homeownership", which includes detailed written explanations of how to shop for a home, how to complete an application and obtain a mortgage, and the various costs associated with purchasing a home, was provided to all attendees. Management stated that the program has resulted in community goodwill, as well as a number of inquiries and residential loan applications.

It is also noted that Fidelity Federal offers credit counseling to its customers. All late notices issued by the Institution inform the customer of the availability of free credit counseling from any of the Institution's loan officers or from Consumer Credit Counseling Services of Dalton, a local United Way agency.

Assessment Factor I - The Institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Fidelity Federal offers a wide range of products to help meet the credit needs of the delineated community, including residential mortgage and construction loans, commercial mortgage and non-mortgage loans, and a variety of consumer loans. The Institution operates as a mortgage banker, and as such, focuses primarily on the origination of conforming single family mortgage loans for sale in the secondary market. The Institution also maintains a "shelf" lending program for those borrowers that do not meet secondary market underwriting criteria. The Institution offers conventional mortgage loans with loan to value ("LTV") ratios up to 95 percent with private mortgage insurance ("PMI"), and offers mortgage loans with LTV ratios up to 100 percent through government insured and guaranteed loan programs (see Assessment Factor J below). Approximately 24.8 percent of the residential mortgage loans originated in 1993, and 45.3 percent of those originated year-to-date ("YTD") in 1994, had LTV ratios exceeding 80 percent.

Fidelity Federal originates loans through its full-service offices located in Dalton and Chatsworth, Georgia, and through its loan production office located in Chattanooga, Tennessee. The Institution also originates loans through correspondents located throughout Georgia and Tennessee. Accordingly, much of the Institution's residential mortgage lending is secured by properties outside the delineated community, which pertains to the area surrounding its depository facilities (as contemplated by the regulations implementing the CRA).

Residential Mortgage Loans - Calendar Year 1993

	<u>Total (# and \$MM)</u>		<u>Within Delin (# and \$MM)</u>	
Dalton/Chatsworth	564	\$38.7	401(71.1%)	\$27.1
Chattanooga	635		0	
Correspondents	1,764		1	
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Total	2,963	\$91.2	402(13.6%)	\$27.2
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Residential Mortgage Loans - Year-to-date 1994

	<u>Total (# and \$MM)</u>		<u>Within Delin (# and \$MM)</u>	
Dalton/Chatsworth	312	\$21.7	265(84.9%)	\$18.6
Chattanooga	373		3 (0.8%)	
Correspondents	683		2 (0.3%)	
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Total	1,368	\$51.0	270(19.7%)	
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While the majority of loans are outside the delineated community, the actual dollar volume of lending within the delineated community is considered to be adequate relative to the total average dollar volume of lending (both within and outside the delineated communities) for savings associations of similar size ("peer group"). Fidelity Federal originated \$27.2 million of residential mortgage loans within the delineated community during calendar year 1993, representing 12.5 percent of its total assets of approximately \$218 million at the beginning of the period. During the nine months ended September 30, 1994, the Institution originated \$15.7 million, representing 6.2 percent of total assets of approximately \$255 million as of December 31, 1993. While these levels are somewhat lower than the peer group's average total loan volume as a percentage of total assets of 17.5 percent and 10.3 percent during the same respective periods, the Institution's local volume level is nonetheless considered acceptable as it takes into account only those originations within the delineated community. Fidelity Federal's total volume of residential mortgage loan originations of \$91.2 million during calendar year 1993, and \$51.0 million the nine-months ended September 30, 1994-- which equates to \$68 million on an annualized basis-- represents 41.8 percent and 26.7 percent of total assets as of year-end 1992 and 1993, respectively. Due to its mortgage banking activities, Fidelity Federal's volume of single-family mortgage lending consistently exceeds that of its peer group of savings associations.

Over the past ten years, Fidelity Federal has grown from roughly \$14 million in total assets to almost \$300 million. Even with this seemingly low percentage of lending within the delineation,

the Institution holds a strong market share in the delineated community, averaging approximately 20 percent of all local residential mortgage loan production during the first eleven months of 1994.

As of September 30, 1994, Fidelity Federal's portfolio of single-family mortgage loans totaled \$152.4 million, comprising 53.1 percent of total assets of \$287 million on that date. Fidelity also generates a substantial amount of consumer loans (primarily automobile and mobile home loans), with origination volume averaging five times that of the peer group. Consumer loans totaled \$40.3 million at September 30, 1994, comprising 15.8 percent of total assets as of December 31, 1993. According to its Thrift Financial Reports, the Institution originated the following volume and amount (000 omitted) of loans during calendar year 1993 and the nine months ended September 30, 1994:

<u>Loan Type</u>	<u>Calendar Year 1993</u>	<u>9 Months Ended 9-30-94</u>
Residential Mortgage (1-4)	\$ 91,234	\$ 50,985
Consumer	24,809	20,739
Other Mortgage	14,919	13,040
Commercial	14,611	4,710
Residential Construction (1-4)	5,188	7,721
Other Construction	2,860	4,373
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Total	\$153,621	\$101,568
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In addition to the loan originations shown above, Fidelity Federal purchased \$166.6 million of residential mortgage loans during calendar year 1993 and \$52.0 million during the nine months ended September 30, 1994. However, none of these purchased loans are secured by properties within the delineated community. The Institution also sold residential mortgage loans in the secondary market, totaling \$178.2 million and \$61.0 million during calendar year 1993 and the nine months ended September 30, 1994, respectively.

The consumer loan origination totals for calendar year 1993 and the nine months ended September 30, 1994, include \$4.4 million and \$2.4 million, respectively, of housing-related loans such as mobile home loans, home equity lines of credit, and home improvement loans. As of September 30, 1994, the outstanding balance of housing-related consumer loans totaled \$6.2 million.

Management indicated that all of the Institution's commercial loan originations qualify as small business loans, as all are granted to local businesses which do not have access to regional or national credit markets. As of September 30, 1994, the

outstanding balance of commercial mortgage and non-mortgage loans totaled \$42.9 million and \$13.5 million, respectively.

The commercial loan origination totals for the nine months ended September 30, 1994, noted above, include \$3.2 million of loans to a number of churches in the local community. The outstanding balance of church loans totaled \$3.4 million at September 30, 1994.

Assessment Factor J - The Institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

Fidelity Federal actively participates in FHA and VA loan programs. The Institution originated 137 FHA/VA loans totaling \$8.7 million during calendar year 1993, and 191 FHA/VA loans totaling \$12.4 million during the nine months ended September 30, 1994. (These totals are included in the residential mortgage loan origination volume presented under Assessment Factor I, above.) Government-assisted loans comprised 15.4 percent of the total residential mortgage loans outstanding at September 30, 1994.

Fidelity Federal became an approved Small Business Administration ("SBA") lender in June 1993. However, only one loan, totaling approximately \$37,000, has been granted under that program to date. The Institution recently established an SBA loan solicitation program which has resulted in several pending applications.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

As set forth in its CRA Statement, Fidelity Federal's delineated community consists of Whitfield and Murray Counties, Georgia. Existing geographic boundaries (county lines) have been used as the method of delineation, and LMI areas have not been excluded. The delineation is considered reasonable, given the location of the Institution's deposit facilities, the geographic distribution of its lending activities, and the resources available to meet community credit needs.

It is noted that the CRA Statement has been revised since the preceding examination. In May 1993, the Board edited the CRA Statement to omit any reference to the Institution's Chattanooga, Tennessee, loan production office. As required by the CRA, Fidelity Federal has considered only areas surrounding its full-service offices as its delineated community.

Assessment Factor E - The geographic distribution of the Institution's credit extensions, credit applications, and credit denials.

None of Fidelity Federal's delineated community is located in a Metropolitan Statistical Area, although Whitfield County has been divided into census tracts and Murray County has been divided into Block Numbering Areas. However, complete census information is not available and Management has established procedures to identify the geographic distribution of the Institution's lending activities. This information is compiled quarterly and utilized by the Board and Management in the formulation of marketing plans and credit products.

According to 1990 census data, the non-metropolitan state-wide median family income for Georgia is approximately \$27,000. Therefore, those census tracts or block numbering areas with a median family income less than \$22,000 (less than 80 percent of the median family income for the state) are considered to be LMI. It is noted, however, that Whitfield and Murray Counties have among the highest median family income levels in Georgia, and that Management analyzes the Institution's geographic lending patterns by the median household income for Whitfield and Murray Counties. The median household income for these counties is approximately \$28,000 and \$27,000, respectively, indicating a LMI threshold of \$22,000 for the delineated community.

Based upon the median household income, the 1990 census data indicates that four (19 percent) of the 21 census tracts and block numbering areas in the delineated community are considered to be LMI. Approximately 20.1 percent of households in the delineated community reside in these LMI areas. Comparatively, Management's analysis of Fidelity Federal's mortgage lending within its delineated community indicates that 9.9 percent of the applications received and 9.2 percent of the residential mortgage loans originated during calendar year 1993 were secured by property located in LMI areas. During the nine months ended September 30, 1994, the Institution determined that 15.6 percent of applications received and 12.0 percent of loans originated were in LMI areas. Management attributes the increase in the incidence rate of applications received from LMI areas to the Institution's proactive ascertainment and marketing efforts, including various community contacts and its Community Homebuyer's Educational Program (discussed under Assessment Factor B.) Owner-occupied housing units comprise only 40.5 percent of the housing units located in the LMI areas. Considering the availability of housing, Fidelity Federal's volume of mortgage lending in these areas is considered to be commensurate with the number of LMI households.

In response to the need for affordable housing alternatives for the LMI segment of the delineated community, the Institution originates a substantial volume of loans for the purchase of mobile homes (not secured by land.) Approximately \$3.9 million and \$2.6 million of mobile home loans were originated during calendar year 1993 and YTD 1994 respectively.

Management's analysis of the geographic distribution of Fidelity Federal's housing-related, consumer, and commercial lending during calendar year 1993 and the nine months ended September 30, 1994, indicates that 14.1 percent and 14.7 percent, respectively, were granted to individuals residing in LMI areas.

The examiner analyzed Fidelity Federal's volume of residential mortgage lending to LMI individuals within the delineated community, using the \$22,000 non-metropolitan state-wide median family income LMI threshold. According to 1990 census data, 30.1 percent of the families within the delineated community are considered to be LMI. It is noted, however, that 27.7 percent of these LMI families have median family incomes which are below the poverty level. The examiner also analyzed the total volume of residential mortgage lending to LMI individuals (both within and outside the delineated community), as Fidelity Federal originates the majority of its loans through its Chattanooga loan production office and various correspondents.

	<u>Calendar Year 1993</u>		<u>YTD 1994</u>	
	<u>Total Loans</u>	<u>LMI Loans</u>	<u>Total Loans</u>	<u>LMI Loans</u>
Dalton/Chatsworth	564	47 (8.3%)	312	33 (10.6%)
Chattanooga	635	81 (12.8%)	373	37 (9.9%)
Correspondents	1,764	177 (10.0%)	683	90 (13.2%)
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Total	2,963	305 (10.3%)	1,368	160 (11.7%)
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This volume is considered somewhat low in comparison to the percentage of the LMI population in the Institution's lending area, even factoring in the below-poverty-level families. However, of the total housing-related consumer loans originated during calendar year 1993 and YTD 1994, 33.5 percent and 22.1 percent, respectively, were granted to LMI individuals.

Assessment Factor G - The Institution's record of opening and closing offices and providing services at offices.

Fidelity Federal currently has four offices located in its delineated community: the main office and two branch offices in Dalton (Whitfield County), and one branch office in Chatsworth (Murray County). The Institution opened the second Dalton branch office in September 1994. At that time, the existing Dalton

branch office became a deposit facility only, as all of the lending and new account functions were moved to the new branch. The main office, the new Dalton branch office, and the Chatsworth branch office all offer a full range of deposit and credit services. The full-service branches offer extended drive-through facility hours and Saturday banking to serve the needs of customers.

Fidelity Federal also has a loan production office in Chattanooga, Tennessee. In July 1994, the Institution received approval from the OTS to open a full-service branch in Chattanooga. The Institution purchased a building site in December 1994, and the branch is expected to be completed and fully operational by July 1995.

No branches have been closed since the previous examination nor are any closings anticipated. Nevertheless, the Board has adopted a branch closing policy which appropriately addresses CRA concerns.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the Institution's CRA Statement(s).

No such practices were noted during the examination.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

No such practices were noted during the examination.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The Institution's participation, including investments, in local community development and redevelopment projects or programs.

Management stated that Fidelity Federal strives to maintain awareness of community development and redevelopment projects through contacts with various government agencies and charitable organizations. The Institution has increased its participation in such projects since the preceding examination. During the review period, Fidelity Federal originated four loans, totaling \$878,000, for the purchase and renovation of commercial properties located in downtown Dalton. It is also noted that the

Institution offered reduced interest rate short-term personal or working capital loans to repair houses, mobile homes, or commercial buildings which were damaged during the blizzard which hit the Dalton area during March 1993.

Assessment Factor K - The Institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

The examination did not disclose any factors which would adversely affect Fidelity Federal's ability and efforts to meet community credit needs.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which the Institution is helping to meet the credit needs of its entire community.

Fidelity Federal has demonstrated a willingness to explore other activities to help meet community credit needs. These activities have consisted of staff participation in, and donations to, various civic and charitable organizations.

It is also noted that the Institution has been quite active in educating students about banking. In cooperation with the Voluntary Action Center of Northwest Georgia, Fidelity Federal has conducted a number of "Consumer Credit College" courses which focus on teaching high school students about sound financial management and the responsible use of credit. In addition, Fidelity Federal has participated in a "Business Mentorship Program", a four-month program which allows an interested high school student the opportunity to spend an hour each afternoon observing and learning about the various functions of the Institution. The Institution also has a "Student Board of Directors", made up of 16 local high school students selected through a formal application and interview process. The "student board" provides a forum through which these teenagers learn about business and the banking industry. The "student board" meets monthly and participates in various community projects and Fidelity Federal marketing promotions. A \$1,000 scholarship grant is awarded to the most outstanding student director each year.

The Institution also participates in the Whitfield County school system's "Business Partners in Education Program", designed to improve the quality of educational programs in the community. Fidelity Federal's partner is Dawnville Elementary School, which has a high concentration of minority students and students from LMI families. Institution personnel regularly donate supplies and provide tutoring and other services to these students.