

Public Disclosure

May 24, 1999

Community Reinvestment Act Performance Evaluation

**The First National Bank of Oneida
Charter Number: 8039**

**18418 Alberta
Oneida, TN 37841**

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

Note: 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 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 The First National Bank of Oneida (FNB) prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of May 24, 1999. 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."**

The following are the primary factors supporting FNB's rating. These conclusions were based on a loan sample of thirty 1 to 4 family real estate mortgages and thirty consumer automobile loans.

- The bank's loan-to-deposit ratio is satisfactory given its size, financial condition, and assessment area credit needs.
- A majority of the bank's loans are made within its assessment area.
- The bank's distribution of loans to borrowers of different income levels is satisfactory.
- We detected no evidence of discrimination or other illegal credit practices during our review.

Description of Institution

FNB reports \$133 million in assets¹ at March 31, 1999 and is a Sub-chapter S Corporation. FNB operates a main office and three branches all within the Scott County. Scott County is approximately 60 miles northwest of Knoxville, Tennessee. FNB offers a full array of banking services.

FNB is the largest bank in terms of assets in Scott County as of December 31, 1998.² The bank's loan portfolio represents 71% of the total assets³ as of March 31, 1999 and consists of residential real estate (\$47 million), commercial (\$9 million), consumer (\$10 million) and all other (\$28 million). Management's lending philosophy is generally making one-year balloon loans. FNB does not participate in any loan programs such as Veterans Administration (VA), Federal Home Administration (FHA) or Tennessee Housing Development Administration (THDA). There are no known legal impediments that would impair the bank's performance under the Community Reinvestment Act.

Description of Assessment Area

FNB's assessment area includes all five Block Numbering Areas (BNA) in Scott County, Tennessee and three of four BNAs in McCreary County, Kentucky. The fourth BNA, which is the farthest away from Scott County is not included in the assessment area because FNB can not readily serve that market. FNB has an office near the Tennessee-Kentucky state line in Winfield, Tennessee; however, FNB does not have any branches in McCreary County, which is contiguous to Scott County. The McCreary County, Kentucky BNAs are served by three other banks that meet the needs of that community. Management states this market is very competitive. FNB's assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The Scott County BNAs are all moderate-income areas with the exception of one middle-income area (9751). Two of the McCreary County BNAs are moderate-income areas and one is a low-income area. The low-income BNA is the least populated in the assessment area and most of its land is protected by The Big South Fork National River and Recreational Area (BSFNRR). The population of Scott County⁴ is 19,816 while McCreary County⁵ is 16,632.

Scott County⁶ has approximately 5,160 families of which 33% are low income, 20% are moderate income, 20% middle income, and 26% upper income. Twenty-nine percent of the Scott County households are below poverty level with 31% receiving social security and 18% receiving public assistance. McCreary County⁷ has approximately 3,643

¹ Uniform Bank Performance Report

² FDIC Internet Site - Bank Comparative Data

³ Consolidated Report of Condition - Call Report

⁴ 1997 U.S. Census Bureau (Haver)

⁵ Ibid.

⁶ 1990 U.S. Census Bureau

⁷ Ibid.

families of which 44% is low income, 24% is moderate income, 15% is middle income, and 18% is upper income. Forty-three percent of the households in McCreary County are below poverty with 38% receiving social security and 25% public assistance.

The 1998 statewide adjusted non-metropolitan statistical area median family income⁸ is \$34,500 for Tennessee and \$29,800 for Kentucky.

FNB's assessment area is predominately rural and light industrial. Scott County's leading industries include light manufacturing, coal and timber. Tourism impacts the local economy due to BSFNRRRA. The major employers⁹ in Scott County are Hartco Flooring, Wabash, and Scott County Schools. The major employers¹⁰ in McCreary County are ABC-Stearns and McCreary County Schools. The unemployment rate¹¹ for Scott County is 7.4% for March 31, 1999 versus the state rate of 4.6% for the same period. The unemployment rate¹² for McCreary County is 7.4% for March 31, 1999 versus the state rate of 4.5% for the same period. Other financial competitors to FNB in Scott County include one Kentucky state chartered Savings Bank. Financial competitors in McCreary County include one state chartered bank and one nationally chartered bank.

We contacted two community leaders to identify the local credit needs. The leaders were from the Oneida Special School District, an organization that improves the standard of living through educational development and a local realtor, whose organization is involved in community development through buying and selling of real estate. Both contacts identified the primary credit need as affordable housing. According to the contacts, bank involvement in the local community is satisfactory.

Conclusions with Respect to Performance Criteria

The basis for FNB's performance evaluation is a 60 item loan sample (Sample). We reviewed 30 first lien 1-4 family residential real estate loans and 30 consumer automobile loans. The Sample was based on loans originated since the last CRA examination. A Sample was used since FNB is not required to collect the information under CRA and management does not voluntarily collect the loan information.

⁸ 1998 U.S. Census Bureau

⁹ FNB's 3/31/99 Allowance for Loan & Lease Losses Methodology

¹⁰ Ibid.

¹¹ U.S. Census Bureau

¹² Ibid.

Loan-to-Deposit Analysis

- **The loan-to-deposit ratio meets the standard for satisfactory performance given FNB's size, financial condition, and assessment area credit needs.**

FNB's twelve quarter average loan-to-deposit ratio¹³ from June 30, 1996 to March 31, 1999 is 79.77%. This represents the third highest ratio for the four banks headquartered in FNB's assessment area. The loan-to-deposit ratio has been steady and ranged from a low of 76.49% to a high of 81.78% with the current five quarter trend flat. The other three competing banks within the assessment area have an average loan-to-deposit ratio¹⁴ of 79.54% ranging from a low 62.96% to a high of 95.52% for the same twelve quarter period.

Comparison of Credit Extended Inside and Outside the Bank's Assessment Area

- **A substantial majority of loans are made within FNB's assessment area.**

The following table indicates the ratio of loans made within the FNB's assessment area based on our Sample of loans. Our Sample revealed that a majority of the loans for each product line are made within the bank's assessment area.

RATIO OF LOANS MADE WITHIN ASSESSMENT AREA				
1-4 Family Real Estate	Number	Percent	Amount	Percent
Inside	27	90%	\$1,244,241	86%
Outside	3	10%	\$204,849	14%
Automobile	Number	Percent	Amount	Percent
Inside	28	93%	\$124,744	96%
Outside	2	7%	\$5,188	4%
Total Loans	Number	Percent	Amount	Percent
Inside	55	92%	\$1,368,985	87%
Outside	5	8%	\$210,037	13%

¹³ Uniform Bank Performance Report

¹⁴ Ibid.

Distribution of Credit Based on Borrower Income Within the Assessment Area

- The distribution of credit reflects satisfactory penetration among individuals of different income levels.

The following table shows FNB has a satisfactory distribution of loans to borrowers of different income levels. The table shows a reasonable distribution among both product lines sampled, especially in the low- and moderate-income levels.

DISTRIBUTION OF LOANS BY BORROWER INCOME						
Income Level	Families in Assessment Area¹⁵		1-4 Family Real Estate		Consumer Automobile *	
	Number	Percent	Number Of Loans	Percent	Number of Loans	Percent
Tennessee - Scott County						
Low	1,713	33%	5	20%	14	56%
Moderate	1,048	20%	5	20%	6	24%
Middle	1,048	20%	8	32%	4	16%
Upper	1,351	26%	7	28%	1	4%
Kentucky - McCreary County						
Low	1,588	44%	-	-	1	50%
Moderate	882	24%	2	100%	-	-
Middle	530	15%	-	-	-	-
Upper	643	18%	-	-	1	50%
Total - TN & KY	8,803	100%	27	100%	27	100%

* Note: For one of FNB's customers, income was not documented in the loan file.

¹⁵ 1990 U.S. Census Bureau

Distribution of Credit Within the Assessment Area

- The geographic distribution of loans reveals satisfactory dispersion throughout the assessment area.

The following table illustrates the distribution of loans made within FNB's assessment area based on our Sample. Overall, the penetration is satisfactory.

DISTRIBUTION WITHIN THE ASSESSMENT AREA									
BNA State Income Tract	9750 TN Mod	9751 TN Mid	9752 TN Mod	9753 TN Mod	9754 TN Mod	9602 KY Low	9603 KY Mod	9604 KY Mod	Total
Percent of Families¹⁶ **	10%	18%	16%	7%	8%	3%	22%	16%	
Number of loans									
1-4 Family RE	1	12	6	3	3	-	1	1	27
Automobile	2	12	7	2	3	-	-	2	28
Total	3	24	13	5	6	-	1	3	55
Percent	5%	44%	24%	9%	10%	-	2%	5%	100%

** Note: Percent of families for FNB's total assessment area.

Four BNAs had low penetration: 9750 (moderate income), 9602 (low income) and 9603 (moderate income) and 9604 (moderate income). 9750 is the BNA, which contains the Winfield office. Management states the population in 9750 has declined over the past ten years despite FNB having one office in the BNA. Furthermore, according to management, this BNA population is more stable and mature in age with fewer credit needs than other assessment areas.

The low penetration in BNA 9602 is due to the low population. Additionally, a large portion of the geography is the BSFNRRRA. The other two BNAs 9603 and 9604 are accessible to the Winfield office for customers wanting to cross the state line. However, the Kentucky BNAs are served by three competitive banks which are more readily accessible than the Winfield Office.

Response to Complaints

- No complaints have been received since the previous examination.

¹⁶ U.S. Census Bureau

Institution's Record of Complying with the Anti-discrimination Laws

- We found no evidence of discrimination or other illegal credit practices. No violations of the substantive provisions of the anti-discrimination and regulations were identified.