



**Comptroller of the Currency
Administrator of National Banks**

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PUBLIC DISCLOSURE

December 18, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Bank of East Tennessee, N.A.
Charter #22238
2421 Jacksboro Pike
LaFollette, Tennessee 37766**

**Office of the Comptroller of the Currency
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 Community Reinvestment Act (CRA) performance of First Bank of East Tennessee, N.A., LaFollette, Tennessee, prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of December 18, 1996. 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 “**Outstanding**”.

The bank's loan-to-deposit ratio is more than reasonable. They have made a majority of loans within their assessment area. The distribution of credit to individuals of different income levels is good. Geographic distribution of credit within the assessment area shows reasonable penetration in moderate income tracts. And, we found no evidence of discrimination or other illegal credit practices during our review.

The following table indicates the performance level of First Bank of East Tennessee, N.A., LaFollette, Tennessee with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	First Bank of East Tennessee, N.A. PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

First Bank of East Tennessee, N.A. (FBET) is a \$82 million institution with the main office and one branch. The bank is based in LaFollette, Tennessee located in Campbell County approximately 35 miles northwest of Knoxville, Tennessee. The bank's primary business is residential real estate and commercial lending. There are no financial or legal impediments that would impair the bank's performance under the Community Reinvestment Act. During the first nine months of 1996, the bank originated 622 loans totaling \$20,282,099.

DESCRIPTION OF ASSESSMENT AREA

FBET has designated their assessment area to be all block numbering areas (BNAs) located in Campbell County. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low or moderate income areas. The assessment area has eleven BNAs including five moderate and six middle income geographies. The 1990 census reported the county's population at 35,079. The 1996 statewide non-metropolitan median family income is \$30,200 while the county's median family income is significantly lower at \$20,137.

The second quarter 1996 county unemployment rate was 8.6%, well above the state and national levels of 4.9% and 5.5%, respectively. Major employers for the county include: Lincoln Brass Works, Inc., Pierre Frozen Foods, Daughtery Manufacturing, Furtex Corporation, A & S Building Systems, Inc., Camel Manufacturing, and DeRoyale Industries. The bank experiences strong competition from four local banks and a credit union.

We have contacted three local community leaders to identify community credit needs. These contacts stated that community credit needs include affordable housing and conventional mortgages. According to the contacts, bank involvement in the local community is good. The bank has determined through their community contacts that local needs include: low interest loans, home equity loans, mobile home loans, fixed rate mortgages, small consumer loans and educational loans for college. Some ways in which FBET has chosen to meet these identified community credit needs include:

- offering 1/2% discount on loans to low and moderate income families,
- low minimum loan amount of \$500,
- credit card program for loan requests under \$500,
- reduced closing costs on mortgages to all customers, and
- offering 1/4% discount on loan rates for customers for each existing relationship with the bank.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Analysis

- **The loan-to-deposit ratio is more than reasonable given FBET's size, financial condition, and assessment area credit needs.**

The average loan-to-deposit ratio since the previous CRA examination (January 14, 1994 utilizing information as of September 1993) is strong at 72.44%. This ratio has steadily ranged between a low of 69.25% and a high of 77.64% during this period. This ratio is higher than both their national peer (63.70%) and financial institutions within Campbell county (60.58%).

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

- **A majority of loans and other lending related activities are in FBET's assessment area.**

The following tables indicate the volume of loans, both by dollar and number, made within and outside the bank's assessment area.

Dollar Volume	Mortgage	Consumer	Commercial	Total
In Campbell County	79.86%	75.97%	30.92%	55.21%
Outside Area	20.14%	24.03%	69.08%	44.79%

Number	Mortgage	Consumer	Commercial	Total
In Campbell County	82.21%	66.30%	52.58%	68.33%
Outside Area	17.79%	33.70%	47.42%	31.67%

The commercial loans, which often have higher balances, somewhat skew the above percentages. This, coupled with the bank's high loan-to-deposit ratio, accentuates the bank's willingness to meet the community's needs.

Distribution of Credit Based on Borrower Income and Business Revenue

➤ **The distribution of credit reflects good penetration among individuals of different income levels and businesses of different sizes.**

The CRA Officer completes a quarterly analysis of the distribution of new mortgage and consumer loans based on the borrower’s income. The analysis through third quarter 1996 indicates that a reasonable amount of loans, both by number and dollar volume, are made to low or moderate income individuals.

Income Category *	1996 Loans % by dollar	1996 Loans % by number	Families in County
Low Income	6%	24%	31%
Moderate Income	16%	25%	19%
Middle Income	28%	23%	21%
Upper Income	50%	28%	29%
* calculated using 1996 HUD’s Tennessee Median Family Income for a Non-metropolitan area.			

As the above table indicates, the percentage of loans made to low income individuals is lower than the percentage of low income families in the county. Several factors contribute to this discrepancy. Approximately 15% of the county’s population is over the age of 65. And, 15% of households are supported by public assistance while 26% of households are below the poverty level. Additionally, the county unemployment rate for second quarter 1996 was 8.6%, well above the state and national levels of 4.9% and 5.5%, respectively. To offset this and provide for the community’s needs, management actively participates in various projects to provide affordable housing for low income individuals and families. These projects include:

Russell Hotel Project - The Russell Hotel was purchased by the LaFollette Housing Authority and will be converted into 28 apartments. The project will provide affordable housing with easy access to downtown. Units will be rented to low and moderate income persons (earning less than 60% of the established median income of \$22,300) and living in substandard housing. FBET submitted an application to the Federal Home Loan Bank of Cincinnati, Ohio and was awarded affordable housing funds for the project. FBET has committed to provide permanent financing of \$414,085 at 6% for 20 years.

Kentucky Avenue Project - FBET is working in conjunction with The LaFollette Housing Authority on this project. Substandard housing that currently exists on this

street will be demolished and replaced by 22 new homes. These homes will be offered to people living in public housing and will be rented on a rent-to-own basis. Funds from Federal Home Loan Bank through the affordable housing program will allow FBET to serve the project with a \$561,068 permanent mortgage at 6% for 15 years.

Kincaid House - This is a newly constructed supported-living home for severely developmentally disabled adults. The home will allow them to live in a more family-like environment rather than institutions. An employee of FBET was instrumental in writing the grant proposal without the help of outside consultants, thereby reducing the overall cost of the project. Federal Home Loan Bank awarded the project a \$15,000 grant. FBET will provide the permanent financing at a low interest rate.

Habitat for Humanity - The object of this project is to build affordable housing for qualified individuals that could not obtain it without assistance. Campbell County is one of the lowest median income counties in the state and the pay scale is below most areas of the state. FBET received a direct grant from the Federal Home Loan Bank's Affordable Housing Program for \$5,000 for Habitat for Humanity. The bank will provide no fee loan servicing for the Campbell County Habitat for Humanity.

During the first nine months of 1996, 51 new commercial loans totaling \$3,115,065 were made to businesses in Campbell county (average size - \$61,080). A limited sample indicated that all of the loans were made to small businesses (annual revenues of less than \$1,000,000).

Distribution of Credit Within the Assessment Area

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

FBET's assessment area contains 11 BNA tracts. Five are moderate income tracts and six are middle income tracts. However, three of the moderate income tracts are separated from the bank by a geographic barrier that makes it difficult for residents to travel to this bank. Banking services are provided to those customers by a local bank in Jellico, Tennessee and several banks in nearby Williamsburg, Kentucky. The following breakdown of both the number and dollar volume of loans made in moderate versus middle income tracts shows satisfactory penetration in the moderate income tracts.

BNA Tracts	Dollar Volume	Number Volume
9501 *	2.23%	3.29%
9502 *	.02%	.47%

BNA Tracts	Dollar Volume	Number Volume
9503 *	.04%	.24%
9504	7.47%	8.24%
9505	11.66%	16.24%
9506	25.03%	23.29%
9507	2.90%	4.47%
9508	11.55%	10.59%
9508	19.98%	12.47%
9510	10.72%	11.53%
9511	8.39%	9.18%
Moderate Income Tracts	38.05%	38.82%
Middle Income Tracts	61.95%	61.18%
* tracts separated by geographic barrier		

Response to Complaints

No complaints have been received since the previous examination.

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 laws and regulations were identified.**

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations including the Equal Credit Opportunity Act and the Fair Housing Act. During our examination, we tested home purchase applications to determine if similarly situated applicants had an equal chance of obtaining a loan. This testing disclosed no evidence of disparate treatment on a prohibited basis.