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Comptroller of the Currency  
Administrator of National Banks

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Southeastern District  
Carolinas Field Office  
6100 Fairview Road Suite 1154  
Charlotte, North Carolina 28210

## **PUBLIC DISCLOSURE**

**March 2, 1998**

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

**Charter Number 10085**

**First National South  
307 North Main Street  
Marion, SC 29571**

**Office of the Comptroller of the Currency  
Southeastern District  
Marquis One Tower, Suite 600  
245 Peachtree Center Avenue, N.E.  
Atlanta, Georgia 30303**

**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 National South**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 2, 1998. 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 institutions record of lending to borrowers within its assessment area is reasonable. The distribution of loans by income and geography reflects reasonable penetration. No violations of the substantive provisions of the antidiscrimination laws and regulations were identified.

The following table indicates the performance level of First National South with respect to each of the five performance criteria.

<b>FIRST NATIONAL SOUTH</b>			
<b>Performance Levels</b>			
<i>SMALL INSTITUTION ASSESSMENT CRITERIA</i>	<i>Exceeds Standards for Satisfactory Performance</i>	<i>Meets Standards for Satisfactory Performance</i>	<i>Does not meet Standards for Satisfactory Performance</i>
<i>Loan-to-Deposit Ratio</i>		X	
<i>Lending in Assessment Area</i>		X	
<i>Lending to Borrowers of Different Incomes and to Businesses of Different Sizes</i>		X	
<i>Geographic Distribution of Loans</i>		X	

<b>FIRST NATIONAL SOUTH Performance Levels</b>			
<i>SMALL INSTITUTION ASSESSMENT CRITERIA</i>	<i>Exceeds Standards for Satisfactory Performance</i>	<i>Meets Standards for Satisfactory Performance</i>	<i>Does not meet Standards for Satisfactory Performance</i>
<i>Response to Complaints</i>	No Complaints Received		

### **DESCRIPTION OF INSTITUTION**

First National South is a seven branch institution with its main office and one additional office located in Marion, South Carolina. In addition to these offices, the bank has one office located in Mullins, South Carolina, one branch in Nichols, South Carolina, one office in Myrtle Beach, South Carolina, and two branches in Florence, South Carolina. These branches are located in three adjoining counties in the northeastern portion of the state. First National South commenced operations following consolidation of two local community banks in 1994. The former banks, Marion National Bank and Davis National Bank, opened for business in 1911 and 1935 respectively. First National South is a subsidiary of M & M Financial Corporation, a one bank holding company. The main office and the Nichols branch facilities are located within moderate-income census tracts. The remaining five offices are located within middle- and upper-income census tracts.

Average assets were \$144 million as of December 31, 1997 with gross loans representing 73% of average assets. The loan portfolio is comprised of the following loan types:

- 74% Commercial, Industrial and Non-farm, Non-residential Real Estate Loans
- 19% 1-4 Family Residential, Construction, Home Equity
- 7% Consumer Loans

As illustrated above, the majority of the bank's lending is centered in commercial and commercial real-estate loan products. Despite the strong commercial lending focus, the institution also provides a variety of residential mortgage products as detailed above. Our review included an analysis of the commercial loan portfolio as well as Home Mortgage Disclosure Act (HMDA) related credits originated during their assessment period.

Due to the bank's strong commercial focus, we relied heavily upon the results of the commercial loan sample to determine the overall assessment of the bank's performance. The commercial segment of the portfolio is most representative of the bank's overall lending performance, based on the philosophy of the bank and the structure of the loan portfolio. This review disclosed no financial or

legal impediments restricting the bank's lending activities. During this assessment period the bank originated 1,972 loans totaling \$72 million in 1996 and 2,118 loans totaling \$87 million in 1997.

## **DESCRIPTION OF THE ASSESSMENT AREAS**

The bank has three assessment areas located in three counties in the southeastern section of South Carolina. The largest assessment areas by geography comprises the entire county of Marion, consisting of eight block numbering areas (BNA's). The second assessment area is located within portions of the Florence Metropolitan Statistical Area (MSA), consisting of 17 census tracts. This MSA consists of 29 census tracts, however, the institution has limited their assessment area to 17 tracts, as the current branch structure could not reasonably serve the entire MSA.

The third assessment area is located in the Horry MSA, and consists of five census tracts. The bank has also limited the number of census tracts in this assessment area from the 32 tracts available in the MSA to five, due to their limited branch structure in Horry county. The bank's assessment areas meet the legal requirements of the regulation and do not arbitrarily exclude any low- or moderate-income areas.

### ***Marion County Assessment Area:***

There are no low- or upper-income designated census tracts within the non-MSA assessment area. There are five moderate-income census tracts which represent 63% of the total census tracts, and three middle-income census tract which equals 38% of the total tracts within this assessment area. The 1990 census reported a population within these census tracts of 33,899. Lending to borrowers of different incomes was evaluated on the basis of the 1997 statewide updated non-MSA median family income of \$34,700.

### ***Florence County MSA Assessment Area:***

There are two low-income census tracts which equals 12% of the total number of census tracts within this assessment area. We identified one moderate-income census tract which equals 6% of the total number of census tracts. There are six middle income tracts which represents 35% of the total census tracts, and eight upper income tracts which equals 47% of the total tracts within the assessment area. The 1990 census reported the population within these census tracts at 67,851. Lending to borrowers of different incomes was evaluated on the basis of the 1997 statewide updated MSA median family income of \$37,200.

### ***Horry County MSA Assessment Area:***

The Horry County assessment area is comprised entirely of middle-income census tracts. The bank has identified 5 middle income tracts as its assessment area, which represents 100% of the total number of census tracts. The 1990 census reported the five census tracts within the Horry County MSA population at 25,744. Lending to borrowers of different incomes was evaluated on the basis of the 1997 statewide MSA updated median family income of \$36,300.

The bank's assessment areas have diverse markets and economic structures. Marion County consist primarily of manufacturing businesses. Major employers for the area include several textile industries including Blumenthal Mills, Incorporated and Anvil Knitwear. Other major employers include Russell Stover Candies and Supreme Lighting. The Florence County market is very diversified with major industries relating to the medical field, including two regional hospitals and a large pharmaceutical

operation. The Florence area also caters to several manufacturing entities, a sizable retail market, and city/county government. The Horry County economic structure is strongly tied to the tourism industry with its highly developed beaches and extensive restaurant and hotel presence. Much of the Horry county is centered in commercial businesses tied directly to the tourism industry.

Competition in each of the institution's assessment areas is extensive and includes several regional and community banks, credit unions, and numerous finance companies. The bank's main competitors in the MSA areas are larger regional institutions with significant asset structures. In the non-MSA portion of the assessment area, the bank's primary competition is other community banks that are comparable in size and business philosophy.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### **Loan to Deposit Ratio**

The average loan-to-deposit ratio since the previous CRA examination in 1995 is satisfactory at 71%. This ratio is only slightly lower than the average loan-to-deposit ratio for the other comparable local institution within the bank's assessment area, at 75%. The bank's ratio exceeds the average for all banks in South Carolina, with an average loan-to-deposit ratio of 65%. Bank's with average assets under \$250 million are considered peer banks for comparative purposes.

### **Lending in the Assessment Area**

#### ***Commercial Origination Analysis***

A majority of the bank's commercial lending is extended within its assessment areas, based on a one month sample of business loan originated during June, 1997. This sample revealed 53% of the number of loans, and 40% of the dollar of loans, originated during June were to businesses within the bank's assessment area.

#### ***HMDA Origination Analysis***

A substantial majority of the bank's residential lending is within its defined assessment areas. We performed a review of the bank's lending patterns using HMDA data which includes all home purchases, refinance, and home improvement loan products originated during 1996 and 1997. The results of this sample indicated that 79% of the total number of all loans, and 85% of the total dollar amount of all loans, were made to borrowers within the combined assessment areas during 1996. During 1997, we found similar results with 82% of the total number of all loans, and 81% of the total dollar amount of all loans made to borrowers within the bank's three assessment areas. In addition, we found the bank had extended credit to 24 of the 30 census tracts within its assessment areas, which reflects reasonable penetration. Of the six census tracts the bank did not penetrate, all are designated as a middle- or upper-income census tract.

### **Lending to Borrowers of Different Incomes and Businesses of Different Sizes**

#### **Performance Based on Small Business Originations**

We found the institution's distribution of lending among businesses of different sizes reflects

reasonable penetration. We based this determination on a sample of commercial loans originated during a one month period during 1997. On an aggregate basis, our sample revealed that the bank originated 27 loans to small businesses totaling over \$469,000 during the month of June, which comprised 40% of their total commercial originations for that month. In addition, small business loans of \$100,000 or less make up a substantial portion of the bank's commercial portfolio. Out of 27 originations to small businesses, all of these loans were originated at or below \$100,000 which represents 100% of the small business originations. Small businesses are defined as companies with less than \$1 million in gross annual revenues. The following tables illustrate the bank's small business performance in each of their three assessment areas.

***Marion County Assessment Area***

<b>June 1997 Small Business Originations</b>					
<b># Cml Originations</b>	<b>\$ Cml Originations</b>	<b># Sm Bus Originations</b>	<b>% of Cml Originations</b>	<b>\$ Sm Bus Originations</b>	<b>% of Cml Originations</b>
18	\$789,000	16	89%	\$391,000	50%

\* Based on a one month sample as of June 1997

The bank compares favorably with the demographics for this assessment area, with 78% of the businesses generating revenues under \$1,000,000 million.

***Florence County MSA Assessment Area***

<b>June 1997 Small Business Originations</b>					
<b># Cml Originations</b>	<b>\$ Cml Originations</b>	<b># Sm Bus Originations</b>	<b>% of Cml Originations</b>	<b>\$ Sm Bus Originations</b>	<b>% of Cml Originations</b>
6	\$46,000	5	83%	\$36,000	78%

\* Based on a one month sample as of June 1997

Again, the bank compares favorably with the demographics for the assessment area, with 73% of the commercial businesses generating revenues under \$1,000,000 million.

***Horry County MSA Assessment Area***

<b>June 1997 Small Business Originations</b>					
<b># Cml Originations</b>	<b>\$ Cml Originations</b>	<b># Sm Bus Originations</b>	<b>% of Cml Originations</b>	<b>\$ Sm Bus Originations</b>	<b>% of Cml Originations</b>
3	\$342,000	2	67%	\$42,000	12%

\* Based on a one month sample as of June 1997

The bank's performance is slightly lower than the demographic standards for this assessment area, with 82% of the commercial businesses generating revenues under \$100,000. The bank's performance is still considered reasonable based on their limited branch presence in this county.

### **Performance Based on HMDA Originations**

We also reviewed a sample of home mortgage and home improvement loans originated during 1996 & 1997 to determine the bank's distribution of lending to borrowers of different incomes. A summary of these findings is detailed in the tables below:

#### **Marion County Assessment Area:**

<b>HMDA Originations to Borrower's of Different Income Levels for Marion County</b>								
<b>1996</b>					<b>1997</b>			
<b>Income Category</b>	<b># of Loans</b>	<b>% of Orig</b>	<b>\$ of Loans</b>	<b>% of Orig</b>	<b># of Loans</b>	<b>% of Orig</b>	<b>\$ of Loans</b>	<b>% of Orig</b>
<b>Low</b>	23	15%	136,000	4%	22	20%	171,000	8%
<b>Moderate</b>	33	22%	249,000	7%	20	18%	210,000	9%
<b>Middle</b>	23	15%	335,000	9%	26	23%	432,000	19%
<b>Upper</b>	73	48%	2,872,000	80%	44	39%	1,443,000	64%

\* Based on 1996 and 1997 HMDA LAR data

The bank's non-MSA assessment area is comprised of 31% low-income, 18% moderate-income, 21% middle-income, and 30% upper-income families. Although the bank's mortgage-related lending to low-income individuals is below the demographic statistics, the bank's volume of originations to moderate-income individuals is in line with the demographics. The low volume of originations to low-income individuals can be attributed to heavy competition in the area. In addition, it is also noted that residential mortgages are not a primary product line of the bank.

#### **Florence County MSA Assessment Area:**

<b>HMDA Originations to Borrower's of Different Income Levels Within Florence MSA</b>								
<b>1996</b>					<b>1997</b>			
<b>Income Category</b>	<b># of Loans</b>	<b>% of Orig</b>	<b>\$ of Loans</b>	<b>% of Orig</b>	<b># of Loans</b>	<b>% of Orig</b>	<b>\$ of Loans</b>	<b>% of Orig</b>
<b>Low</b>	1	7%	15,000	4%	1	6%	36,000	4%
<b>Moderate</b>	3	20%	13,000	3%	3	19%	139,000	15%
<b>Middle</b>	2	13%	107,000	27%	3	19%	95,000	10%
<b>Upper</b>	9	60%	264,000	66%	9	56%	680,000	71%

\* Based on 1996 and 1997 HMDA LAR data

The bank's MSA assessment area is comprised of 20% low-income, 14% moderate-income, 17% middle-income, and 49% upper-income families. As evidenced by the table above, the bank has exceeded the MSA demographics for lending to moderate-income borrowers, however lending to low-income borrowers is below the demographic standard. This level of performance can be attributed to the significant competition in the Florence County market in conjunction with the bank's limited branch presence.

***Horry County MSA Assessment Area:***

<b>HMDA Originations to Borrower's of Different Income Levels Within Horry MSA</b>								
<b>1996</b>					<b>1997</b>			
<b>Income Category</b>	<b># of Loans</b>	<b>% of Orig</b>	<b>\$ of Loans</b>	<b>% of Orig</b>	<b># of Loans</b>	<b>% of Orig</b>	<b>\$ of Loans</b>	<b>% of Orig</b>
<b>Low</b>	0	0	0	0	0	0	0	0
<b>Moderate</b>	1	17%	2,000	1%	1	6%	36,000	3%
<b>Middle</b>	1	17%	92,000	23%	2	12%	47,000	3%
<b>Upper</b>	4	66%	304,000	76%	14	82%	1,315,000	94%

\* Based on 1996 and 1997 HMDA LAR data

The bank's MSA assessment area is comprised of 11% low-income, 20% moderate-income, 24% middle-income, and 45% upper-income families. Although the bank has not originated any loans to low-income families, the bank's level of lending to moderate-income families is similar to the MSA demographics. The lack of penetration to low-income borrowers can be attributed to the low level of residential opportunities in these census tracts.

The bank's assessment area is comprised primarily of commercially zoned property, which corresponds to their overall business philosophy, resulting in few residential mortgage transactions. In addition, competition from numerous financial institutions in the Horry County MSA also impacts the bank's performance in this market.

## Geographic Distribution of Loans

### **Performance Based on Small Business Originations**

Distribution of small business credits within the bank's assessment areas is reasonable. To form a conclusion on the bank's geographic distribution in their three assessment areas, we reviewed a one month sample of small business loans originated during 1997. The following three tables demonstrate the bank's satisfactory penetration throughout their assessment areas.

#### *Marion County Assessment Area:*

<b>Small Business Originations</b>				
<b>First National South Demographics</b>			<b>Marion County MSA Demographics</b>	
<b>Census Tracts</b>	<b># of Loans</b>	<b>% of Orig</b>	<b># of Sm Bus</b>	<b>% of Sm Bus</b>
<b>Low</b>	0	0	0	0
<b>Moderate</b>	9	56%	275	51%
<b>Middle</b>	7	44%	260	49%
<b>Upper</b>	0	0	0	0

\*Based on a one month sample of originations extended during June, 1997

#### *Florence County MSA Assessment Area:*

<b>Small Business Originations</b>				
<b>First National South Demographics</b>			<b>Florence County MSA Demographics</b>	
<b>Census Tracts</b>	<b># of Loans</b>	<b>% of Orig</b>	<b># of Sm Bus</b>	<b>% of Sm Bus</b>
<b>Low</b>	1	20%	217	10%
<b>Moderate</b>	1	20%	55	3%
<b>Middle</b>	2	40%	1,149	51%
<b>Upper</b>	1	20%	803	36%

\*Based on a one month sample of originations extended during June, 1997

#### *Horry County MSA Assessment Area:*

There are no low- or moderate-income census tracts within this assessment area, therefore, analysis of the bank's geographic distribution is not meaningful. As a result, a table of the bank's small business originations have not been provided for this assessment area.

### **Performance Based on HMDA Originations**

The geographic distribution of credit within the bank's three assessment area also reflects reasonable penetration. We noted no conspicuous, unexplained gaps in the bank's lending patterns. We based

our findings on a review of all HMDA loans originated in the assessment area during 1996 and 1997. HMDA loans include home mortgage, refinance, and home improvement loans. The results of these samples are illustrated in the following tables:

**Marion County Assessment Area:**

<b>HMDA Originations Within the Non-MSA Assessment Area</b>								
<b>1996</b>					<b>1997</b>			
<b>Census Tracts</b>	<b># of Loans</b>	<b>% of Orig</b>	<b>\$ of Loans</b>	<b>% of Orig</b>	<b># of Loans</b>	<b>% of Orig</b>	<b>\$ of Loans</b>	<b>% of Orig</b>
<b>Low</b>	0	0%	0	0%	0	0%	0	0%
<b>Moderate</b>	79	51%	1,639,000	44%	59	52%	1,032,000	43%
<b>Middle</b>	77	49%	2,095,000	56%	54	48%	1,396,000	57%
<b>Upper</b>	0	0%	0	0%	0	0%	0	0%

\* Based on 1996 and 1997 HMDA LAR data

The Marion County Assessment Area demographics show no low-income census tracts and 55% of families reside in moderate-income census tracts. The remaining 45% of the population resides in middle-income census tracts. The non-MSA assessment area has no upper-income census tracts. The percentages of originations extended to borrower's residing in moderate-income census tracts is relatively consistent with the MSA demographics.

**Florence County MSA Assessment Area:**

<b>HMDA Originations Within the MSA</b>								
<b>1996</b>					<b>1997</b>			
<b>Census Tracts</b>	<b># of Loans</b>	<b>% of Orig</b>	<b>\$ of Loans</b>	<b>% of Orig</b>	<b># of Loans</b>	<b>% of Orig</b>	<b>\$ of Loans</b>	<b>% of Orig</b>
<b>Low</b>	4	21%	377,000	15%	0	0%	0	0%
<b>Moderate</b>	0	0%	0	0%	0	0%	0	0%
<b>Middle</b>	4	21%	222,000	9%	9	45%	575,000	23%
<b>Upper</b>	11	58%	1,933,000	76%	11	55%	1,971,000	77%

\* Based on 1996 and 1997 HMDA LAR data

The Florence County Assessment Area demographics reflect 11% of the families reside in low-income census tracts while 8% of families reside in moderate-income census tracts. Of the remaining families in this assessment area, 33% are located in middle-income tracts and 48% reside in upper-income census tracts. The percentages of originations extended to borrower's residing in low-income census tracts considerably exceeds the MSA demographics for 1996, however, the bank has originated no loans to individuals residing in low- or moderate-income census tracts during 1997.

The absence of lending to this segment of the assessment area can be attributed to extensive competition in the Florence area from other financial institutions. In addition, the low- and moderate-income census tracts within the bank's assessment area have, on average, a lower percentage of owner occupied properties. Therefore, the opportunity for residential mortgage related originations is limited, which is the only form of lending activity captured in this sample.

***Horry County MSA Assessment Area:***

Again, there are no low- or moderate-income census tracts within this assessment area, therefore, analysis of the bank's geographic distribution is not meaningful. As a result, a table of the bank's HMDA data has not been provided for this assessment area.

**Review of Complaints**

The bank has received no complaints during the assessment period.

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

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