



## **Public Disclosure**

September 30, 1998

### **Community Reinvestment Act Performance Evaluation**

**First National Bank of South Mississippi  
Charter No. 22949**

**6480 Highway 98 West  
Hattiesburg, Mississippi 39404-5549**

**Office of the Comptroller of the Currency  
800 Woodland Parkway, Suite 111  
Ridgeland, Mississippi 39157**

**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 **First National Bank of South Mississippi (FNBSM)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of September 30, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

**Institution's CRA Rating:** This institution is rated **Satisfactory**..

We concluded that the bank's performance is "satisfactory" based on the following:

- o FNBSM's average loan-to-deposit ratio of 63.75% is considered reasonable considering the size of the institution and the level of competition within its assessment area.
- o A substantial majority of the loans originated by FNBSM from January 1, 1997 to September 30, 1998 are within the bank's assessment area.
- o FNBSM's dispersion of loans shows satisfactory lending levels to borrowers of different income levels and businesses of different sizes.
- o The geographic distribution of loans originated by FNBSM shows satisfactory penetration throughout all areas of the bank's assessment area.

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

Small Institution Assessment Criteria	First National Bank of South Mississippi 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 have been received since the prior examination		

## Description of Institution

First National Bank of South Mississippi (FNBSM) is a \$42 million financial institution headquartered in the Oak Grove community of Lamar County. Fifty percent of the bank's loans are real estate, 36% are commercial, 13% are consumer, and 1% are agricultural and other. The bank operates two branches. It opened for business on August 5, 1996. There are no supervisory concerns (impediments) that would affect FNBSM's ability to meet credit needs of its' community. Competition is strong from four large regional banks, four community banks, and numerous credit unions and savings banks. There is one other bank operating in Lamar County that is also considered to be a hometown bank, Lamar County Bank. FNBSM is the smallest bank operating in its assessment area (AA).

## Description of Assessment Area

The bank's AA consists of Lamar County, which is part of the Hattiesburg MSA. The Hattiesburg MSA includes both Forrest and Lamar counties. Due to the bank's size and the fact that both of the bank's branches are located in Lamar County, management does not feel they are large enough to serve the entire Hattiesburg MSA. The AA meets regulatory guidelines. The population for the AA is 30,424. The HUD updated 1998 MSA median family income is \$32,800. Table 1 below shows the demographic makeup of the AA by census tract and family income. Low income is considered to be less than 50% of median family income, moderate income is considered to be between 50% and 79% of median family income, middle income is 80% to 119%, while upper income is 120% and above.

Assessment Area Demographics - Table 1				
Income Level	# of CTs	% of CTs	# of Families	% of Families
Low	0	0.00%	0	0.00%
Moderate	1	16.67%	1,202	11.09%
Middle	3	50.00%	4,625	42.67%
Upper	2	33.33%	5,012	46.24%
Total	6		10,839	

The AA has a strong economy and low unemployment. For September 1998, Lamar County had an unemployment rate of 3.0%, one of the lowest in the state. Mississippi's unemployment rate for September 1998 was 5.1%. Employment in the AA is relatively mixed with highest percentages employed by the retail industry (17%), educational services (15%), health services (12%), and non-durable manufacturing (11%), and construction (8%). Hattiesburg is the medical center for south Mississippi and is home to the University of Southern Mississippi (enrollment of about 12M). Other main employers include Sunbeam Oster (900+ employees), Murray Envelope

(580 employees), Hattiesburg Cable (450 employees), and Marshall Durbin Poultry (420 employees).

The primary credit needs identified through community contacts are mortgage loans and business loans.

## **Conclusions with Respect to Performance Criteria**

### ***Loan-to-deposit ratio***

FNBSM's average loan-to-deposit ratio (LTD) of 63.75% is reasonable. The ratio was averaged over nine quarters, which covers September 30, 1996 through September 30, 1998. This is the time elapsed since the bank opened for business. FNBSM's LTD ratio increased steadily from 27.83% at September 30, 1996 to a high of 76.73% at December 31, 1997. LTD has declined to 68.93% at September 30, 1998 due to a large deposit temporarily received from an affiliate bank. As noted previously in this evaluation FNBSM is the smallest bank in the AA and must compete with much larger institutions for loans. There are no similar-situated institutions within the AA.

### ***Lending in the Assessment area***

A substantial majority of the loans originated by FNBSM are within the bank's AA. From January 1, 1997 to September 30, 1998 the bank extended 78% of the number and the dollar amount of HMDA loans within its AA. Ninety-one percent of the number and 95% of the dollar amount of these loans were within the Hattiesburg MSA.

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

FNBSM's dispersion of HMDA loans shows satisfactory lending levels to borrowers of different income levels. The table below shows the bank's distribution of HMDA loan originations for January 1, 1997 to September 30, 1998. During this time period the bank originated 85 HMDA loans for a total of \$4,091M. Of these HMDA loans, 26% of the number were made to low- and moderate-income (LTM) borrowers. This number is slightly lower than the percentage of LTM families in the AA (34%).

<b>HMDA Loans by Borrower Income Level - Table 2</b>					
<b>January 1, 1997 - September 30, 1998</b>					
Income Level of Borrower	Total # of Loans	Total \$ of Loans (000)	Percentage # of Loans	Percentage \$ of Loans	Percentage Families
Low	7	116	8%	3%	20%
Moderate	15	171	18%	4%	14%
Middle	21	560	25%	14%	18%
Upper	42	3244	49%	79%	47%
Total	85	4091	100%	100%	100%

FNBSM's volume of loans to small businesses, those with annual revenue less than \$1 million, is good. The bank's computer system does not track the income of business borrowers but these borrowers can be separated by business purpose code. As shown in the chart below, 40.7% of the bank's business loans at September 30, 1998 were to small businesses in the amounts of \$25M or less. These small loan amounts indicate a strong lending pattern to small businesses. The results of our review are reflected in table 3 below. This chart shows a even distribution of loans, by number of loans, to businesses of all sizes.

<b>Business Loans at September 30, 1998 by Loan Size - Table 3</b>				
<b>(*original loan amount)</b>				
Size of Loan	# of Loans	\$ of Loans* (000)	% # of Loans	% \$ of Loans
\$10,000 or less	56	320	17.8	1.2
\$10,001-\$25,000	72	1151	22.9	4.3
\$25,001-\$50,000	56	1978	17.8	7.3
\$50,001-\$100,000	66	4525	20.9	16.8
> \$100,000	65	18963	20.6	70.4
Total	315	29937		

The above table does not break out agricultural loans because they represent only a small portion of the loan portfolio.

### ***Geographic Distribution of Loans***

The geographic distribution of loans originated by FNBSM shows satisfactory penetration throughout all areas of the AA. The bank only maintains CT information on HMDA reportable loans. Our analysis of HMDA loans originated from January 1, 1997 to September 30, 1998 showed the bank had a satisfactory penetration of all areas of their AA with the exception of CT 206. This CT is located in the southern most portion of Lamar County and is approximately 15 miles from the bank's closest branch. Distribution of HMDA loans throughout the remaining 5 CTs was good with the highest concentration of loans made in the two CTs where the bank's branches are located (202 and 204). The table below shows the bank's distribution of HMDA loan originations by CT income level.

From January 1, 1997 to September 30, 1998 FNBSM originated 66 HMDA loans totaling \$3,184M within its AA. Only 1 loan was originated in the one moderate income CT located in the southern most area of Lamar County. Approximately 11% of the families in the AA live in this CT and 11% of the owner-occupied housing units are located in this CT, as indicated by table 4 below.

<b>HMDA Loans Originations by Census Tract Income Level - Table 4 January 1, 1997 - September 30, 1998</b>					
<b>Income Level of Census Tract</b>	<b>Total # of Loans</b>	<b>Total \$ of Loans (000)</b>	<b>Percentage # of Loans</b>	<b>Percentage \$ of Loans (000)</b>	<b>Percentage Families</b>
Low	0	0	0%	0%	0%
Moderate	1	80	2%	3%	11%
Middle	37	963	56%	30%	44%
Upper	28	2141	42%	67%	45%
<b>Total</b>	<b>66</b>	<b>3184</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The bank does not maintain CT information on business loans.

### ***Response to Complaints***

The bank's public file did not contain any complaints regarding the bank's performance under the CRA. We found no evidence of discrimination or disparate treatment during our examination.