

PUBLIC DISCLOSURE

February 20, 1998

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

First National Bank of Cherokee
Charter # 21836

9860 Highway 92
Woodstock, Georgia 30188

Office of the Comptroller of the Currency
Georgia Field Office
1117 Perimeter Center West, Suite W-401
Atlanta, Georgia 30338-5417

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.

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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 Cherokee prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of February 20, 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 First National Bank of Cherokee CRA rating is based on the institution's satisfactory loan-to-deposit ratio, adequate proportion of lending in its assessment area, good distribution of lending to borrowers of different income levels and businesses of different sizes and, finally, adequate geographic distribution of loans.

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

SMALL
INSTITUTION
ASSESSMENT
CRITERIA
First National Bank of Cherokee
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 by First National Bank of Cherokee since its last CRA examination in March 1995.

DESCRIPTION OF INSTITUTION

First National Bank of Cherokee (FNB) is a community banking institution serving Cherokee and northern Cobb Counties. The bank's financial condition is characterized by total assets of \$88 million, total loans of \$73 million, total deposits of \$79 million and net income of \$217 thousand for year-end 1997. FNB operates two offices: the main office located at 9860 Highway 92, Woodstock, Georgia and a full service branch at 1185 North Cobb Parkway, Marietta, Georgia.

A

new full service branch will open in 1998 at 134 Keith Drive, Canton, Georgia. FNB is owned by First Cherokee Bancshares, Inc., a one bank holding company.

The bank is headquartered in a high growth and highly competitive market. Competition consists of eight state and nationally chartered community banks plus branches of multinational and regional

banks. The bank offers traditional products and services such as commercial and small business loans, consumer loans and various deposit products. The bank has been designated by the Small Business Administration as a preferred lender. FNB's loan portfolio is comprised of 59% commercial and commercial real estate, 26% construction and 15% consumer-related loans.

FNB has a history of complying with the Community Reinvestment Act. No known legal impediments exist that would restrain FNB from meeting the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

FNB is in the Atlanta metropolitan statistical area (MSA). Management has identified forty census

tracts within this MSA as the bank's assessment area. The assessment area covers all of Cherokee County and the northern portion of Cobb County. According to the U.S. Census Bureau, these designated areas contain one low-income tract (Cobb), two moderate-income tracts (Cherokee), 16

middle-income tracts and 20 upper-income tracts. One tract in Cherokee is uninhabited. The population of the assessment area in 1990 was 289,053. According to the Department of Housing

and Urban Development, 1997 median family income for the Atlanta MSA is \$53,100.

ATLANTA MSA - The Atlanta Metropolitan Statistical Area is a twenty-county area surrounding the

city of Atlanta with a total of 504 census tracts. Metro Atlanta is internationally recognized as the transportation, communication, industrial and cultural center of the Southeastern United States.

The

Atlanta MSA has one of the strongest economies of any major urban area. Due to its location and extensive transportation network, Atlanta has become a major distribution center for the Southeast.

As distribution and associated industrial activities gradually transfer to other urban centers in the South, Atlanta is evolving into a major provider of technological and financial support services.

The Atlanta MSA has a diverse industrial base including manufacturing, transportation, distribution, retailing, wholesaling, finance, government, research, education, medicine and technical support. Ninety percent (90%) of the Fortune 500 companies maintain regional offices in the Atlanta area. In addition, ninety-eight of the nation's top industrial firms maintain some type of operational facility in metro Atlanta. Foreign trade has played a significant role in the area's growth over the last two decades. More than 200 foreign firms have established their U.S. headquarters in Atlanta. Of these companies, thirty-one are foreign-based banks with offices in Atlanta.

CHEROKEE COUNTY - Cherokee County is one of the fastest growing counties in Georgia.

Major

industry employers include Interstaff Inc., Seaboard Farms and Wal-Mart. Unemployment for the county is low at two percent (2%). Much of Cherokee County's growth has occurred in the southern

part of the county. High growth is expected to continue, and increase in particular in the northern portions of the county. Population for Cherokee County based on the 1990 Census was 90,204. The Board of the Atlanta Regional Commission (ARC) estimates 1997 population to be 122,300.

COBB COUNTY - Cobb County is also growing, although at a slower rate than Cherokee County.

Major employers include Lockheed Aeronautical and Cobb County School District.

Unemployment

in the northern portion of the county is also low at two percent. Commercial growth is expected to

taper and level off over the next few years. Population for all of Cobb County was 447,745 based on the 1990 Census. The ARC estimates 1997 population to be 535,000. For the northern part of

the county, 1990 Census information shows the population to be 198,849.

COMMUNITY CONTACTS - As part of our examination, we obtained information from community

leaders regarding local economic conditions and community credit needs. Based on information provided to our office, the primary credit needs in the area are small business loans.

INCOME DEFINITIONS

Throughout this evaluation, we use the following definitions for the various income levels. These levels are defined in the Home Mortgage Disclosure Act.

Low-Income - An individual income, or median family income for geographies, that is less than 50% of the area median income.

Moderate-Income - An individual income, or median family income for geographies, that is at least 50% but less than 80% of the area median income.

Middle-Income - An individual income, or median family income for geographies, that is at least 80% but less than 120% of the area median income.

Upper-Income - An individual income, or median family income for geographies, that is 120% or more of the area median income.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Since the last CRA examination in March 1995, FNB's quarterly average loan-to-deposit (LTD) ratio is seventy-eight percent (78%) compared to the average LTD ratio of seventy-two percent (72%) for all community banks in the assessment area. There are a total of nine community banks located in Cherokee and northern Cobb Counties. As Graph 1 below shows, the bank's LTD ratio has generally increased over the past two years. FNB's LTD ratio consistently exceeded the group average in every quarter except March 1996.

Lending in Assessment Area

Overall lending levels reflect an adequate responsiveness to community credit needs. Based on information provided by management for loans outstanding as of December 31, 1997, about sixty-two percent of loans are to borrowers within its assessment area. This is illustrated in Graph 2. While the percent of loans by dollar volume within the bank's assessment area is smaller than by number, this figure is skewed somewhat by larger dollar loans to individual commercial borrowers.

FNB's loan portfolio is centered in commercial, commercial real estate and construction-related loans. This is based on year-end 1997 call report information, summarized below in Table 1.

Only

fifteen percent of the bank's lending activity is residential and consumer-related. It should be noted

that competition in the bank's assessment area is strong. FNB has defined one market niche as small

business and Small Business Administration guaranteed loans.

Types of Loans Outstanding as of December 31, 1997

Loan Type

Amount (000's)

Percent

Commercial Real Estate

\$31,629

43.26%

Construction/Land Development

\$18,868

25.80%

Commercial and Industrial
\$11,327
15.49%

Residential Real Estate
\$5,775
7.90%

Consumer
\$5,311
7.26%

Other
\$212
0.29%

TOTAL LOANS
\$73,122
100.00%

Table 1

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

In conjunction with internally prepared reports, we selected a sample of consumer and business purpose loans to analyze FNB's lending patterns. We selected loans originated in 1996 and 1997, with outstanding balances as of December 31, 1997. Our analysis also included FNB's Home Mortgage Disclosure Act data for 1996 and 1997.

Lending to Borrowers of Different Incomes

Lending to borrowers of different incomes is satisfactory. We sampled a total of sixty-three consumer purpose loans to determine the income levels of borrowers. As Table 2 indicates, FNB's lending to borrowers of low- and moderate-income (LMI) levels is good, with about forty-six percent to LMI level borrowers. This compares favorably to twenty-four percent of families at those levels in the bank's assessment area. Distribution at other income levels is also reasonable.

Distribution of Loans by Borrower Income Level in Assessment Area

Income Level
% Families in
Assessment Area
of Loans
% of Loans

Low Income
10%
9
14%

Moderate Income
14%
20
32%

Middle Income
22%
18
29%

Upper Income
54%
16
25%

Total
100%
63
100%

Table 2

Lending to Businesses of Different Sizes

Lending to businesses of different sizes is satisfactory. We sampled twenty commercial

purpose loans to determine gross revenue levels of the businesses. For CRA purposes, small businesses are defined as those with gross annual revenues less than \$1 million. As shown in Graph 3, our sample indicated that eighty-five percent of FNB's commercial loans are to small businesses.

Geographic Distribution of Loans

FNB has a satisfactory record of lending to all segments of its assessment area. We used a sample of consumer and commercial purpose credits to determine the distribution of lending activity by census tracts. Table 3 illustrates this distribution for both consumer and commercial purpose loans.

The last row of this table also shows the distribution by income levels of the census tracts in FNB's assessment area. Based on the number of loans extended, about five percent of loans are in low- and moderate-income census tracts, which is reasonable compared to a total of eight percent of low- and moderate-income census tracts in the assessment area. It should be noted these census tracts are located the farthest from the bank's offices. While the remaining census tracts in the bank's assessment area are middle or upper income tracts, distribution of credit throughout the various tracts is reasonable and consistent with the bank's ability to help meet the credit needs of its community.

Loans by Type Within Each Tract Income Level for the Assessment Area

Loan Type
Low
Income
Moderate
Income
Middle
Income
Upper
Income

Total

#

%

%

%

%

%

Consumer

0
0%
3
5%
39
62%
21
33%
63
100%

Commercial

0
0%
1
5%
10
50%
9
45%
20
100%

Total Loans

0
0%
4
5%
49
59%
30

36%
83
100%

Tracts *

1
3%
2
5%
16
41%
20
51%
39
100%

* Excludes uninhabited tract in Cherokee County

Table 3

Response to Consumer Complaints

FNB has not received any CRA-related complaints since the last CRA examination performed in March 1995.

Record of Compliance with Antidiscrimination Laws.

We conducted a concurrent compliance and fair lending examination. We did not identify any discriminatory lending practices or violations of the substantive provisions of federal antidiscrimination laws and regulations. The bank has instituted appropriate fair lending policies, procedures and training programs.

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