



Small Bank Performance Evaluation

Public Disclosure

March 15, 1999

**Community Reinvestment Act Performance
Evaluation**

**First National Bank of Hamilton
Charter # 16579**

**341 Military Street South
Hamilton, Alabama 35570**

Office of the Comptroller of the Currency

Southeast 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 CRA performance of the **First National Bank of Hamilton** prepared by the Office of the **Comptroller of the Currency**, the institution's supervisory agency, as of March 15, 1999. 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** “. The rating is based on the following:

- FNB’s average loan-to-deposit ration of 56.43% is considered reasonable considering the level of competition within its assessment area.
- A substantial majority of the institution's loans made between October 1, 1997 to September 30, 1998 were made in the bank's assessment area.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- Lending patterns indicate good distribution of loans among borrowers of different levels (low and moderate income borrowers and small businesses).

The following table indicates the performance level of the First National Bank of Hamilton with respect to each of the five performance criteria. (Indicate the performance level under each criteria by marking an "X" in the appropriate column. If the institution received no complaints since the prior examination, do not "X" a column; instead, type over all three boxes "No complaints were received since the prior examination.")

Small Institution Assessment Criteria	First National Bank of Hamilton 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		

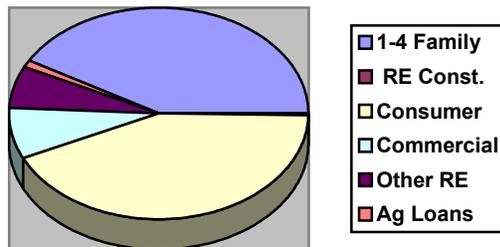
Description of Institution

The First National Bank of Hamilton (FNB) is a \$153 million community bank headquartered in the county seat of Marion County, Alabama. This area is primarily rural and is located in the northwest portion of the state. The bank, chartered in 1976, is wholly owned by Marion Bancshares, Inc., a one bank holding company the bank is the only asset of the holding company. FNB conducts business from six locations within its assessment area including the main office and a branch in Hamilton, two branches (Detroit and Sulligent) in Lamar County, and two branches (Haleyville and Lynn) in Winston County. Of these locations, the Lynn and Haleyville locations have been opened since the previous examination. No acquisition or merger has been completed since the previous examination. All branches are full service locations. Currently, the bank does not have ATMs, but the Board of Directors has approved the purchase of three, which will be installed in Haleyville, Sulligent, and Hamilton by June 1999.

FNB's primary business focus is consumer lending. The bank offers a variety of loan and deposit products to meet the needs of its customers. As of 12/31/98, net loans comprise approximately 50 percent of average assets. The 12/31/98 Report of Condition reflected the following loan mix:

Loan Portfolio Mix

12/31/98



No financial or other impediments were identified which would prevent FNB from meeting the credit needs of its community. The bank received a rating of "Satisfactory" at its previous CRA examination (2/7/96).

Competition within the bank's assessment area is intense as 14 banks operate within FNB's three county assessment area in Alabama. No information regarding competition was noted concerning its Mississippi assessment area. The bank regards its primary competitors as Southtrust Bank of Marion County, First State Bank of Lamar County, Community Bank, and Traders and Farmers Bank. However, none of these banks are similarly situated as Southtrust is part of a multi-billion dollar holding company, First State Bank is noticeably smaller, and Traders and Farmers Bank is much larger.

Sources of data which were relied upon for this CRA evaluation included the bank's externally prepared CRA geo-analysis report dated October 1, 1998, the 12/31/98 Uniform Bank Performance Report, 1990 Census Data, and various internally generated reports. In addition, a community leader was also consulted to gain feedback on area demographics, perceived credit needs, and financial institution performance within the assessment area.

Description of Assessment Area

The bank's assessment area (AA) consists of the entire geographies of both Marion and Lamar County, Alabama, three block numbering areas (BNA) in Winston County, Alabama, two BNAs in Franklin County, Alabama, and two BNAs in Monroe County, Mississippi. This area is contiguous and does not arbitrarily exclude any low or moderate income areas. As a result, the bank's AA meets all legal requirements as specified by the CRA. Total bnas within the assessment areas equal 18, including two moderate income tracts and no low income tracts. The total population of the area is 75,200 or 28,847 households. Approximately 22.01 percent of these households are below the poverty level. Total housing units within the assessment area equaled 31,488 and of these, 70.96 percent are owner occupied. The area's median housing value is \$37,476.

The 1990 Census Median Family Income for the non-metro portions of Alabama and Mississippi were \$24,500 and \$21,994, respectively. The HUD estimated 1998 non-MSA median family income for the states of Alabama and Mississippi were \$32,600 and \$29,800 respectively. Low income is defined as less than 50 percent of the median family income. Moderate income is defined as between 50 percent to less than 80 percent of the median family income. Middle income is defined as 80 percent to less than 119 percent of the median family income. Upper income is defined as income over 120 percent of the median family income. Income classification categories for both states are listed in Table 1.

Income Categories - Table 1				
State	Low	Moderate	Middle	Upper
Alabama	<\$16,300	\$16,300 \$26,080	\$26,080 \$39,120	>\$39,120
Mississippi	<\$14,900	\$14,900 \$23,840	\$23,840 \$35,760	>\$35,760

The number of families by income characteristics are as follows:

Low income	23.92	percent
Moderate income	16.84	percent
Middle income	19.00	percent
Upper income	40.24	percent

Based on this information, BNAs can be sorted by income characteristics as shown in Table 2:

Assessment Area Demographics - Table 2				
Income Level	No. of BNAs	% of BNAs	No. of Families	% of Families
Low	0	0	0	0
Moderate	2	11	2,857	10
Middle	14	78	21,804	75
Upper	2	11	4,186	15
Total	18	100	28,847	100

The racial makeup of the assessment area is majority White. The racial makeup of the assessment area is as follows:

Racial Composition of Assessment Area - Table 3		
Race	Count	%
American Indian/Eskimo	141	0.19
Asian/Pacific Islander	79	0.11
Black	4,000	5.32
White	70,760	94.10
Other	7	0.01
Hispanic	213	0.28
Total	75,200	100

The local economy of the assessment area is heavily dependent upon the manufacturing, timber, and agribusiness sectors. Major employers in the area include Glenn Enterprises (1,500) which manufactures men's trousers, Chromalox (500) which manufactures electrical machinery, and

NTN Bowers (500), a roller bearing manufacturer. The mobile home industry also plays a large part in the area's economy as several national companies have plants in the area and jobs in this sector continue to increase. The area's unemployment rate was 4.9 percent as of January 1999 reflecting increased job opportunities since the previous examination when the unemployment rate was 6 percent. However, the unemployment rate is still noticeably higher than that of the state of Alabama (3.9 percent), but only slightly higher than that of the United States (4.3 percent) for the same time period.

Information received from the community contact indicated that the areas most pressing needs are job opportunities for middle-aged women (due to the closure of several textile plants which had employed these people for years), home purchase opportunities, and small business financing. The contact was complimentary of FNB's performance in the local community.

Conclusions with Respect to Performance Criteria

Loan-to-Deposit Ratio (LTD)

- FNB's average loan-to-deposit ratio (LTD) of 56.43 percent is considered reasonable.

The 11 quarters since the 2/7/96 examination resulted in an average loan-to-deposit ratio of 56.43 percent, ranging from a high of 62.12 percent at 9/30/98 to a low of 53.31 percent at 12/31/97. As of 12/31/98, FNB's ratio of 58.63 percent compares negatively to the bank's national peer group average of 71.48 percent. A comparison of banks headquartered in Alabama with assets between \$130 million and \$170 million yielded similar results with FNB being ranked 15 out of 19 in level of loans-to-deposits. Management stated that their LTD is negatively affected by large deposits from local school districts and public utilities that come in on the last day of the month. The LTD for December 1998 considering average loans and deposits was 62 percent.

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

- A substantial majority of the bank's loans are extended to borrowers within its assessment areas.

Table 4 denotes 1-4 family real estate loans originated between 10/1/97 to 9/30/98. Percentages of consumer real estate loans extended in and out of the bank's assessment area were further substantiated through a review of consumer loans made during the same time period (Table 5).

1-4 Family RE Loans - Table 4				
Location	No. Of Loans	% of Loans (by no.)	\$Volume of Loans	% of Loans (by \$)
Inside AA	353	94.89	13,110,593	96.64
Outside AA	19	5.11	455,638	3.36
Total	372	100	13,566,231	100

Consumer Loans - Table 5				
Location	No. Of Loans	% of Loans (by no)	\$ Volume of Loans	% of Loans (by \$)
Inside AA	2,733	94.37	21,410,042	93.79
Outside AA	: 163	5.63	1,418,338	6.21
Total	2,896	100	22,837,380	100

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

- The distribution of loans made to different borrower income levels and to different business sizes is excellent. This is concluded through a comparison of the percentage of families by income to the actual performance of the loans made to each income category.

Because the bank's external analysis did not include geocoding by income, the OCC took a sample of 30 consumer related real estate loans originated from January to June 1998. We also took a sample of 30 installment loans originated from January 1998 to March 1999 to determine if lending patterns were equitably distributed among customers by income.

1-4 Family RE Loan Distribution - Table 6					
Income Category	% of Families by Income	No. Of Loans in AA	% of Total (by No.)	\$ of Loans in AA (000's)	% of Total (by \$)
Low	23.92	1	3.33	11	1.23
Moderate	16.84	14	46.67	339	37.83
Middle	19.00	9	30.00	297	33.15
Upper	40.24	6	20.00	249	27.79
Total	100	30	100	896	100

While the granting of consumer mortgages was more than adequate among moderate income borrowers, loan performance among low income borrowers appeared to be weak in relation to their composition by income within FNB's assessment area. Management explained that few home buying opportunities are available in the area due to the stability of the area's population. In addition, the average rental rate in the assessment area is \$221, which makes leasing more attractive. Mobile homes are popular in the area as attractive alternatives to new construction, but captive financing arms of home manufacturers offer potential buyers convenient packages of insurance and financing. Further, many of these loans are sold in the secondary market with interest rates that the bank cannot meet due to funding costs.

To further substantiate the bank's adequacy in lending to borrowers of different incomes, a sample of 30 consumer purpose loans made during 1998 were geocoded to show distribution by income (Table 7). This table shows that consumer purpose loans had more than adequate representation among low and moderate income borrowers.

Consumer Loan Distribution - Table 7					
Income Category	% of Families by Income	No. Of Loans in AA	% of Total (by No.)	\$ of Loans in AA (000's)	% of Total (by \$)
Low	23.92	24	82.76	76	69.72
Moderate	16.84	5	17.24	33	30.28
Middle	19.00	0	0	0	0
Upper	40.24	0	0	0	0
Total	100	29*	100	109	100

* 1 loan out of the original sample of 30 was eliminated as it was commercial purpose.

Due to the absence of gross revenue information on business borrowers, loan distribution by revenue could not be performed. However, an analysis utilizing loan size as a proxy for gross

Revenue was performed. Although FNB is not a major business lender in its assessment area, the chart below shows that the bank has good loan penetration to small businesses as 69.87 percent of the number of commercial loans made were to businesses for amounts less than \$25,000.

Business Loan Distribution by Loan She - Table 8				
Business Loan Size	No. Of Loans	% of Loans (No.)	\$ofloans	% of Loans (\$)
>\$100,000	20	6.41	5,086,547	46.66
\$75,000 \$100,000	5	1.60	435,194	3.99
\$50,000 \$74,999	28	8.98	1,634,674	14.99
\$25,000 \$49,999	41	13.14	1,364,052	12.51
<\$25,000	218	69.87	2,381,565	21.85
Total	312	100	10,902,032	100

Geographic Distribution of Loans

- The geographic distribution of 1-4 family RE and consumer loans reflect adequate penetration throughout all of FNB's assessment areas. This was concluded through a comparison of the percentage of families residing within each BNA (by income) to the percentage of the bank's loans made in each of these tracts.

The geographic distribution of 1-4 family RE loans made during 1998 by BNA closely reflects the demographics of the assessment area by income (Table 9).

Geographic Distribution of 1-4 Family RE Loans - Table 9					
Income Level of BNA	Total Loans (No.)	Total Loans (\$)	% of Loans (No.)	% of Loans (\$)	% of bnas (No.)
Low	0	0	0	0	0
Moderate	41	1,329,141	11.6	10.14	11
Middle	305	11,579,554	86.4	88.32	78
Upper	7	201,898	2.0	1.54	11
Total	353	13,110,593	100	100	100

The geographic distribution of consumer loans by BNA (Table 10) does not reflect the assessment area's characterization by income as 1.70 percent of the number of loans made in 1998 were extended in moderate income BNAs. These BNAs comprised 10 percent of the number of families within the bank's assessment areas. However, 40.68 percent of the areas low and moderate income families reside within the middle income BNAs. Further, one of the two moderate income BNAs is primarily timberland and the other is a new market for the bank. The bank opened a branch Haleyville, AL in August, 1997.

Geographic Distribution of Consumer Loans - Table 10					
Income Level of BNA	Total Loans (No.)	Total Loans (\$)	% of Loans (No.)	% of Loans (\$)	% of BNAs (No.)
Low	0	0	0	0	0
Moderate	41	1,329,141	1.70	6.41	11
Middle	2,367	19,227,815	98.01	92.62	78
Upper	7	201,898	0.29	0.97	11
Total	2,415	20,758,854	100	100	100

Response to Complaints

The bank's public file did not contain any complaints regarding the bank's performance under the CRA.

Results of Fair Lending Review

Due to the lack of a minimum amount of loan applications denied to a specific class of minorities (ex. Black, American Indian, etc.) for any type of mortgage product offered by the bank to perform the Benchmark Approach, the OCC utilized the Loan Terms approach to determine if preferences existed in the granting of consumer real estate related loans. Under this approach, a sample of loans made to borrowers belonging to a prohibited basis group are compared to a sample of loans made to a control group. The review was designed to determine if any disparities existed in interest rates, closing costs, etc. Our review included a review of approved mortgage refinances using Black applicants as the prohibited basis group and White applicants as the control group.

We found no evidence of discrimination or disparate treatment during the fair lending portion of the OCC's 1999 compliance examination of First National Bank. In addition, no violations of the substantive provisions of the antidiscrimination laws and regulations were identified.