



## **PUBLIC DISCLOSURE**

August 04, 2014

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

Elizabethton Federal Savings Bank  
Charter Number 704307

112 N Sycamore St Elizabethton, TN 37643-3326

Office of the Comptroller of the Currency

320 Seven Springs Way Suite 310 Brentwood, TN 37027

**NOTE:** This document is an evaluation of this 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. 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.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

Major factors that support this rating include:

- The Bank's loan-to-deposit ratio is reasonable.
- A substantial majority of loan originations are within the Bank's assessment areas (AAs), exceeding the standard for satisfactory performance.
- The distribution of loans to borrowers of different income levels for residential mortgage lending is reasonable.
- The geographic distribution of residential mortgage loans within the Bank's AAs is excellent.
- The overall level and responsiveness of community development lending and services is reasonable.

## **Scope of Examination**

We evaluated Elizabethton Federal Savings Bank (Elizabethton FSB) using the Intermediate Small Bank (ISB) examination procedures which include Lending and Community Development Tests. The evaluation period covered August 2, 2010 through August 4, 2014. Our lending test focused on residential loan originations from 2012 and 2013. In evaluating the community development, we reviewed community development (CD) loans, investments, and services for the entire evaluation period. We considered the bank's small business and farm loans as part of our CD test.

In evaluating the Bank's lending performance, we focused on the primary loan products, home purchase, and home refinancing. We compared the Bank's lending performance to other institutions as reported in the 2012 Home Mortgage Disclosure Act (HMDA) aggregate data and demographic data as reported in the 2010 Census. The 2013 HMDA aggregate data was not available for our review during this evaluation period.

As part of this evaluation, we tested the accuracy of the Bank's HMDA data and found the information to be accurate and reliable. We also verified all community development loans, investments and services submitted by management to ensure they met the regulatory definition for community development. We excluded any items that did not meet the definition or purpose of community development. We performed full scope reviews for both of the Bank's AAs, which considers complete performance context, quantitative and qualitative factors.

## Description of Institution

Elizabethton FSB is a federally chartered, mutual savings association established in 1937. The institution has five locations in Tennessee and does not have any affiliates or subsidiaries. There have been no changes in the institution's corporate structure and no offices have opened or closed since the last CRA performance evaluation in August 2010, when the Institution received a "Needs to Improve" rating.

The institution's head office and one branch are located in Elizabethton (Carter County), two branches are located in neighboring Johnson City, (Washington County), and one other branch is located in Mountain City, (Johnson County). Elizabethton operates as a traditional savings association, with a primary focus on mortgage lending and deposit acceptance.

On June 30, 2014, the institution reported total assets of approximately \$332 million. The loan portfolio totaled \$138 million, representing 44% of earning assets. Investment securities, primarily US treasury and agency securities, comprise the remaining 56% of earning assets. Residential real estate loans continue to represent a significant portion of the loan portfolio at 69%. Multi-family property loans, construction and development, loans secured by farmland, and commercial real estate loans comprise the majority of the remaining loan portfolio.

The institution has experienced only minimal growth since the last performance evaluation in 2010. Total Assets have increased less than 1% and the loan portfolio has declined slightly. There are; however, no legal or financial impediments to the Institution's ability to meet the credit needs of its assessment areas, including CD loans, qualified investments, and CD services.

Elizabethton FSB offers a full range of loan and deposit services, including conventional fixed- and adjustable-rate first and second mortgages for the purchase, refinance, improvement, and construction of single-family residences. The institution also offers residential loans with private mortgage insurance (PMI), home equity, and consumer loans, as well as commercial real estate loans to small businesses and farmers. The institution retains all of its mortgage loan originations.

Bank offices are located in areas that are generally accessible to all customers. The head office location in Elizabethton is in a downtown moderate-income census tract (CT), while the Elizabethton branch is centrally located in a middle-income CT. One of the two branches in Johnson City is located in an upper-income area, while the other is located in a business district near East Tennessee State University. The branch office in Mountain City is located just off one of the major thoroughfares in a distressed middle-income CT.

Elizabethton FSB has deposit taking Automated Teller Machines (ATMs) at each location. Customers may also access their accounts through telephone or Internet banking services at <http://www.elizfed.com/services/>. Internet and telephone banking

services support transfers between institution accounts, balance inquiries and transaction history retrieval. Bill payment, check images, and account statements are also available through the Internet banking product. Elizabethton FSB also offers VISA debit cards and merchant processing for commercial customers.

## **Description of Assessment Area(S)**

The institution's assessment areas consist of the three counties where the head office and branches are located; Carter, Washington, and Johnson. These adjacent counties are located in northeastern Tennessee, near the borders of North Carolina and Virginia and the Appalachian and Blue Ridge Mountains.

For the purpose of this evaluation, we combined Carter and Washington counties, which represent a portion of the Johnson City Metropolitan Statistical Area (MSA). Although Johnson County is adjacent to Carter County, it is not part of the MSA. Therefore we evaluated the institution's performance in Johnson County assessment area separately as a rural non-MSA.

The institution's AAs meet the requirements of the CRA regulation and do not arbitrarily exclude low- and moderate-income geographies.

### Carter and Washington Counties – Johnson City Partial MSA

The bank's branches in this assessment area are located in Elizabethton and Johnson City. Elizabethton is the county seat of Carter County, which is approximately 10 miles from Johnson City, the largest city and regional educational, medical and commercial center of Washington County.

The FDIC's June 30, 2013 market share report shows that approximately 85% of the bank's deposits are in this combined assessment area. HMDA data from 2012-2013 shows that 75% of the bank's residential loans are in this combined assessment area.

The combined assessment area for Carter and Washington counties includes all 40 census tracts (CTs) defined in the 2010 census. There is only one low-income CT (2.5%) in this AA, which is in Washington County. The majority of the CTs in this AA are moderate and middle-income areas. Moderate-income CTs numbered 14 (or 35%), while middle-income tracts numbered 16 (or 40%). Upper-income CTs numbered 8 (or 20%). There is one CT in this AA that did not have an income designation in the 2010 census data. This CT is located in Washington County near East Tennessee State University. The Bank has a branch office in this CT.

According to the 2010 Census data, the combined population of Carter and Washington counties is approximately 180 thousand. Washington County is the larger of the two counties, with a population of approximately 123 thousand, while the population of Carter County approximates 57 thousand. Washington County has

experienced population growth of about 13% since the 2000 census, but growth in Carter County has been minimal at less than 1%.

The 2010 census reported 73 thousand households in this partial MSA, of which 34% receive Social Security benefits and 18% retirement income. The Carter County Chamber of Commerce website indicates that Elizabethton/Carter County has become a popular place for retirees. This is also reflected in 2013 census estimates which show that a significant percentage of the Carter County population (19%) is over 65. The percentage of population over 65 in Washington County at 16% is also slightly higher than reported for the state of Tennessee at 15%.

Census data also shows that 22% of the families in this partial MSA have low-income and 17% have moderate-incomes. Households below poverty level were 19%, which is slightly higher than 17% reported by the census bureau at the state level between 2008- 2012, and 15% reported nationally. Updated 2013 HUD information indicates that the weighted average MSA median family income for the partial MSA AA is \$49 thousand, which is down slightly from \$51 thousand in 2011.

In the 2010 census, there were 83 thousand housing units in this AA, with a high percentage of owner occupied units at 61%. The median home value was \$125 thousand.

The AA's economy is relatively diverse with major employers consisting of government, education, health services, trade and manufacturing. In Washington County, some of the area's largest employers include Mountain States Health Alliance, East Tennessee State University, Citi Commerce Solutions, Mountain Home Veterans Administration Medical Center, American Water Heater Co. and AT&T Mobility. There are numerous service industry businesses: federal, state, municipal, educational systems, and other medical systems serving the entire MSA.

In Carter County, other major employers include Snap-On Tools, Walmart, Summers Taylor (a concrete/asphalt paving contractor), and Sycamore Shoals Hospital. Three colleges in Elizabethton, Tennessee including the College of Applied Technology, Milligan College and a branch of Northeast State Community College, provide employment, educational opportunities, and job training. Several nearby state and national parks support tourism in the area.

The bank's assessment area is also a component of the multi-state Johnson City-Kingsport-Bristol, TN, VA Combined Statistical Area (CSA), commonly known as the Tri-Cities Region, which provides additional employment opportunities to the assessment area. The Tri-Cities region is the fifth largest CSA in Tennessee with an estimated population of 500 thousand.

The local economies are improving; however, management indicates that the recession and the lack of new construction have negatively impacted tradesmen in their assessment area. This is evident in unemployment statistics and the number of

residential building permits in Carter County. Residential building permits have declined from 129 in 2010 to 42 in 2012. More recent data from the census bureau shows improvement in 2013 with an estimate of 82 new permits. Residential permit trends in Washington County have also shown improvement, increasing to 404 in 2013, up from 291 in 2010.

Unemployment data from the Bureau of Labor and Statistics (BLS) and the Tennessee Department of Labor and Workforce shows improvement in unemployment trends as the region slowly recovers from the recession. The June 2014 monthly unemployment rate for Carter County, *not seasonally adjusted*, was 7.4%, which is down significantly from an annual rate of 10% in 2010. In Washington County, the unemployment rate for June 2014 was 7%, which is also down from an annual rate of 8.5% in 2010. However, unemployment rates in the bank's assessment areas are still slightly higher than state and national rates, which were 6.6% and 6.1% respectively in June 2014.

Competition in this assessment area is very strong. The FDIC's June 30, 2013 deposit market share report shows 22 banks and savings institutions in Carter and Washington Counties with 67 offices. Numerous credit unions, mortgage companies, check cashing businesses, finance and title loan companies also compete with banks and savings institutions in this market. The FDIC report shows that banks and savings institutions in this combined assessment area hold approximately \$2.5 billion in deposits. Elizabethton FSB ranked 5<sup>th</sup> with 7% of the deposit market share. Deposit market share leaders are much larger, multi-state, regional or national institutions. The 2012 aggregate HMDA data shows that Elizabethton FSB ranked 6<sup>th</sup> in mortgage loan originations within Carter County with 3.95% of the market share and 21<sup>st</sup> in the larger Washington County market, with 1% of the market share. The bank's mortgage market share was approximately the same in 2011.

#### Johnson County – (Non MSA)

Johnson County is located in a rural portion of upper east Tennessee. The bank's branch office is located in the rural community of Mountain City, which is the county seat and 33 miles from Elizabethton. Based upon the FDIC's June 30, 2013 deposit market share report, approximately 16% of the bank's deposits are from the Johnson County assessment area. HMDA aggregate data for Johnson County shows that Elizabethton FSB ranked 1<sup>st</sup> in mortgage loan originations in 2012 with 11% of the market share.

This assessment area includes all five CTs designated in the 2010 census data. Three of which are designated as moderate-income tracts, while the remaining two tracts are middle-income tracts. In the years 2012, 2013 and 2014, the middle-income CTs were all designated as distressed areas due primarily to the high poverty rates. The bank's Mountain City branch office is located in one of the distressed middle-income tracts.

According to the 2010 census data, the total population in Johnson County is approximately 18 thousand, with 2.5 thousand in Mountain City. Population growth in

the County has been minimal over the past 10 years, with approximately 1% growth. Census data shows 7 thousand households in the County, with 41% receiving social security benefits and 19% retirement income. Over 17% of the population was over 65.

The percentage of households below poverty levels at 24% is much higher in Johnson County than in the bank's other assessment area. This percentage is also much higher than state and national poverty rates. Census data shows that 29% of the families in this AA are low-income and 23% are considered moderate-income. Middle-income families represented 17% of total families while upper-income families represented 31%. The updated 2013 HUD Average Medium Family income for the county was \$47 thousand, which is approximately the same as in 2010.

According to the 2010 Census, there were 8.9 thousand housing units in the AA, with 63% of the units being owner occupied. Approximately 20% of the units were occupied rental properties and 17% were vacant. A fairly high percentage of persons (9%) lived in correctional institutions. The median housing value was \$93 thousand.

The economy in Johnson County has been slow to rebound from the recession. There have been no large, new employers in the area since 2010; however, the State has recently opened Doe Mountain Park, which is an 8,600 acre park/mountain providing outdoor recreational opportunities and possibly creating new business opportunities and industries supporting tourism and recreation. Many of the individuals in Johnson County commute to larger communities in the region for employment. During the evaluation period, only two building permits were issued each year (2010-2012) and only one in 2013.

Unemployment rates remain high in Johnson County at 8% in June 2014, but this is an improvement from 13.5% in 2010.

Major employers in the county include the Northeast Correction Center (prison), Parkdale Mills (cotton processing), Maymead, Inc. (lime manufacturer), Mountain City Care Center (nursing and convalescent) and local schools and hospitals.

The FDIC's June 30, 2013 market share report only shows three (3) banks in this County, two of which are local banks with offices only in Johnson County. Elizabethton FSB ranks last of the 3 banks with 14% of the deposit market share. Although there are only 3 banks in this assessment area, competition is considered fairly strong when considering the size of the community, distressed economic conditions, and the number of other lenders in this county, which include a credit union, Farm Credit, mortgage companies, and finance companies.

The high poverty rates, high percentage of low-income families, and the lack of development in this assessment area present challenges for residential lending opportunities. In addition, information provided by the local county reflects that there

are few opportunities in this AA for multi-family properties, as all 5 unit apartments in the AA are government subsidized.

Community Contacts

As part of this evaluation, we determined the community credit needs in the bank’s assessment areas by reviewing the CRA Public Evaluations of other banks operating in the same areas and conducting three community contacts with local non-profit organizations focusing on affordable housing and community services. We also met with a local government entity serving the community of Elizabethton. We determined that the most pressing credit needs in the AA are affordable housing and small business lending. Other identified needs included financial literacy and low cost depository services.

**Conclusions with Respect to Performance Tests**

**LENDING TEST**

The bank’s performance under the Lending Test is rated “Satisfactory”.

**Loan-to-Deposit Ratio**

- Based upon the bank’s resources, financial capacity, competitive environment, and other performance context factors, the bank’s loan-to-deposit ratio meets the standard for satisfactory performance.

Elizabethton FSB’s quarterly average loan-to-deposit (LTD) ratio since the last CRA evaluation is reasonable at 74% which is near the 80% quarterly average of six similarly situated banks in the assessment area. The range of the average LTD ratio for these similarly situated banks was 68% to 91%. The banks used for comparative purposes are included in the Table below.

<b>Loan-To-Deposit Ratios</b>					
Institution	City	State	County	Total Assets (6/30/14)	Average Loan-to-Deposit Ratio
Elizabethton FSB	Elizabethton	TN	Carter	\$332,208	74.43%
Citizens Bank	Elizabethton	TN	Carter	\$642,193	82.37%
Johnson County Bank	Mountain City	TN	Johnson	\$119,559	73.76%
Farmers State Bank	Mountain City	TN	Johnson	\$134,324	73.22%
TriSummit Bank	Kingsport	TN	Sullivan	\$226,443	67.94%
Mountain Commerce Bank	Erwin	TN	Unicoi	\$400,929	89.22%
Andrew Johnson Bank	Greeneville	TN	Greene	\$296,754	91.47%

We did note that the bank's average LTD ratio has declined from 90% during the previous evaluation period. The decreased loan volume is attributed to increased competitive pressures and weak loan demand. Refinancing volume has also slowed in recent periods as mortgage rates have increased slightly from historic lows.

### Lending in Assessment Area

- Lending in the bank's assessment areas (AAs) exceeds the standard for satisfactory performance.

A substantial majority of the bank's lending volume is within its AAs. We performed this analysis at the bank level for all AAs as opposed to the AA level. As illustrated in Table 1 below, Elizabethton FSB originated 93% of its HMDA loans and 89% of the dollar volume within its AAs during the periods 2012 and 2013.

<b>Table 1 - Lending in the Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	113	91.87	10	8.13	123	11,215	82.03	2,457	17.97	13,672
Home Improvement	40	93.02	3	6.98	43	1,838	89.27	221	10.73	2,059
Home Refinance	118	95.16	6	4.84	124	12,745	95.50	600	4.50	13,345
<b>Totals</b>	<b>271</b>	<b>93.45</b>	<b>19</b>	<b>6.55</b>	<b>290</b>	<b>25,798</b>	<b>88.73</b>	<b>3,278</b>	<b>11.27</b>	<b>29,076</b>

Source: 2012, 2013 HMDA Data

### Lending to Borrowers of Different Incomes

- The distribution of residential loans to borrowers of different income levels is reasonable, meeting the standard for satisfactory performance.

#### Washington and Carter Counties – Johnson City Partial MSA

Overall, the distribution of loans to borrowers of different income levels is reasonable in Washington and Carter counties. We placed more emphasis on the bank's home purchase and home refinancing among low-income borrowers because of the identified AA credit need for affordable housing. Home purchase and home refinancing are also the bank's primary loan products.

As reflected in Table 2 below, the distribution of all residential loans, including home purchase, home refinance and home improvement, to low-income borrowers exceeds performance when compared to other institutions in this AA. The distribution of home refinance loans to low-income borrowers significantly exceeds performance when compared to other institutions.

The distribution of all residential loan types among moderate-income borrowers is slightly below performance when compared to other institutions.

<b>Table 2 Borrower Distribution of Residential Real Estate Loans in Carter &amp; Washington Counties AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans
Home Purchase	9.24	10.75	22.93	15.05	23.98	19.35	43.86	54.84
Home Improvement	17.92	26.67	18.89	13.33	26.06	26.67	37.13	33.33
Home Refinance	6.97	13.04	16.69	14.49	25.39	28.99	50.95	43.48

Source: 2012 – 2013 HMDA Data, HMDA 2012 aggregate

When comparing Elizabethton FSB’s distribution of home purchase and home refinance loans to AA demographic data, the bank’s performance among low-income borrowers is significantly below AA demographics, but home improvement loans to low-income borrowers exceeds AA demographics. Home purchase loans, home improvement and home refinancing to moderate-income borrowers are all just slightly below AA demographics.

<b>Table 2.1 Borrower Distribution of Residential Real Estate Loans in Carter &amp; Washington Counties AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	22.23	10.75	17.11	15.05	19.85	19.35	40.81	54.84
Home Improvement	22.23	26.67	17.11	13.33	19.85	26.67	40.81	33.33
Home Refinance	22.23	13.04	17.11	14.49	19.85	28.99	40.81	43.48

Source: 2012 – 2013 HMDA Data, 2010 U.S. Census data.

When considering the AA competition, the AA demographics including high poverty rates and significant percentage of low- and moderate-income families in the AA, the Bank’s performance in this AA is considered reasonable.

Johnson County – Non MSA

Overall, borrower loan distribution in Johnson County is reasonable. The volume of home purchase and home improvement loans in this AA was not sufficient to perform a meaningful analysis, but home improvement was not a primary loan product. In addition, when considering the AA demographics such as the limited number of new building permits, high poverty rates, lack of personal income growth, and high

percentage of home ownership, we determined that there was more of a need for refinancing in this AA than home purchase loans, therefore we placed more weight and focused on residential refinancing in this AA.

As reflected in Table 2.2 below, Elizabethton FSB’s distribution home refinancing to low-income and moderate-income borrowers significantly exceeds performance when compared to other institutions in this assessment area.

<b>Table 2.2 Borrower Distribution of Residential Real Estate Loans in Johnson County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans
Home Purchase	5.71	11.76	30.00	17.65	24.29	17.65	40.00	52.94
Home Improvement	5.00	0.00	30.00	12.50	30.00	25.00	35.00	62.50
Home Refinance	4.83	9.76	18.62	26.83	16.55	24.39	60.00	39.02

Source: 2012-2013 HMDA data; 2012 Aggregate HMDA data

When considering AA demographics, we found that the Bank’s distribution of home refinancing to low-income borrowers is significantly below AA demographics, but home refinancing to moderate-income borrowers slightly exceeds AA demographics as reflected in the Table 2.3 below.

<b>Table 2.3 Borrower Distribution of Residential Real Estate Loans in Johnson County AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	28.89	11.76	22.77	17.65	17.13	17.65	31.21	52.94
Home Improvement	28.89	0.00	22.77	12.50	17.13	25.00	31.21	62.50
Home Refinance	28.89	9.76	22.77	26.83	17.13	24.39	31.21	39.02

Source: HMDA Data from January 1, 2010 through December 31, 2011; 2000 U.S. Census data.

This level of performance is considered reasonable, when considering the high poverty rates in this distressed AA, the high percentages of low- and moderate-income families, and the competition from other local banks in this small AA.

**Geographic Distribution of Loans**

- The Bank’s lending performance reflects an excellent distribution of loans throughout its AAs including low- and moderate- income areas, exceeding the standards for satisfactory performance.

Washington and Carter Counties – Johnson City Partial MSA

Overall, the distribution of loans in Washington and Carter counties reflects an excellent percentage of loans in low- and moderate-income areas. During 2012-2013, the bank originated 95 home purchase loans in this assessment area totaling \$9.6 million, 75 home refinances totaling \$9.1 million, and 32 home improvement loans totaling \$1.3 million.

As reflected in Table 3 below, the distribution of the bank’s home purchase loans in the one low-income area of Washington County slightly exceeds performance when compared to other institutions in this AA. The bank did not have any home improvement or home refinancing in low-income areas. The distribution of home purchase, home improvement and home refinancing in moderate-income areas significantly exceeds performance when compared to other institutions in this assessment area.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Carter & Washington Counties AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans
Home Purchase	0.85	1.05	17.75	42.11	41.88	40.00	39.52	16.84
Home Improvement	0.96	0.00	29.30	37.50	43.63	46.88	26.11	15.63
Home Refinance	0.63	0.00	17.19	34.67	42.47	49.33	39.70	16.00

Source: 2012-2013 HMDA Data, 2012 Aggregate HMDA Data

When compared to AA demographic data, the bank’s distribution of home purchase loans in low-income areas slightly exceeds AA demographics. The distribution of home purchase, home improvement, and home refinancing in moderate-income areas significantly exceeds AA demographics as reflected in Table 3.1 below.

Table 3.1 - Geographic Distribution of Residential Real Estate Loans in Carter & Washington Counties AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Owner Occupied	% of Number of Loans	% of Owner Occupied	% of Number of Loans	% of Owner Occupied	% of Number of Loans	% of Owner Occupied	% of Number of Loans
Home Purchase	0.89	1.05	24.23	42.11	45.27	40.00	29.60	16.84
Home Improvement	0.89	0.00	24.23	37.50	45.27	46.88	29.60	15.63
Home Refinance	0.89	0.00	24.23	34.67	45.27	49.33	29.60	16.00

Source: 2012-2013 HMDA Data, 2010 Census

Johnson County – Non MSA

When considering the assessment area needs and local demographics, the distribution of loans throughout Johnson County is also considered excellent. Throughout most of the evaluation period, all census tracts in this AA were either moderate-income or distressed middle-income tracts. During the period 2012-2013, Elizabethton FSB originated 18 home purchase loans in this AA totaling \$1.6 million. The Bank also refinanced 43 home loans in this assessment area totaling \$3.7 million and 8 home improvement loans totaling \$514 thousand.

While the volume of home purchase and home improvement loans during this period was not sufficient to perform a meaningful analysis in this assessment area, we did find that home purchase and home improvement loans were evenly dispersed among both moderate and distressed middle-income CTs, as reflected in Table 3.2 below.

Table 3.2 also reflects that the percentage of the bank’s home refinance loans in moderate-income areas slightly exceeds performance by other institutions in this AA. The percentage of refinancing in distressed middle-income areas is only slightly below other institutions.

Table 3.2 - Geographic Distribution of Residential Real Estate Loans in Johnson County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans	% of AA Aggregate	% of Number of Loans
Home Purchase	0.00	0.00	54.79	50.00	45.21	50.00	0.00	0.00
Home Improvement	0.00	0.00	66.67	50.00	33.33	50.00	0.00	0.00
Home Refinance	0.00	0.00	68.05	69.77	31.95	30.23	0.00	0.00

Source: 2012-2013 HMDA, HMDA 2012 aggregate

When comparing the Bank’s home refinancing to AA demographics, as reflected in Table 3.3 below, the Bank’s distribution slightly exceeded AA demographics in moderate-income CT, although they were slightly below AA demographics in distressed middle-income tracts.

Table 3.3 - Geographic Distribution of Residential Real Estate Loans in Johnson County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of Owner Occupied	% of Number of Loans	% of Owner Occupied	% of Number of Loans	% of Owner Occupied	% of Number of Loans	% of Owner Occupied	% of Number of Loans
Home Purchase	0.00	0.00	66.34	50.00	59.33	50.00	0.00	0.00
Home Improvement	0.00	0.00	66.34	50.00	59.33	50.00	0.00	0.00
Home Refinance	0.00	0.00	66.34	69.77	59.33	30.23	0.00	0.00

Source: 2012-2013 HMDA, 2010 Census Data

### Responses to Complaints

The bank has not received any complaints regarding its CRA performance during the evaluation period.

### COMMUNITY DEVELOPMENT TEST

- The bank’s performance under the Community Development (CD) Test is rated “Satisfactory”.

The bank's community development performance demonstrates an adequate responsiveness to community development needs in its assessment areas through a combination of community development loans, investments, and services. The bank's community development efforts were centered in community development lending during the evaluation period.

### Number and Amount of Community Development Loans

#### Carter and Washington Counties - Johnson City Partial MSA

The bank originated an adequate level of community development loans in the partial MSA assessment area. During the evaluation period, the bank made 12 community development loans totaling \$4.8 million.

There were six loans supporting affordable housing for low- and moderate-income people totaling \$1.4 million, five small business loans totaling \$1 million, and three small

farm loans totaling \$2.4 million. Small business loans are defined as having revenues less than \$1 million. Small farm loans are defined as having revenues less than \$500 thousand. The volume of community development loans represented approximately 7% of the bank's Tier 1 Capital.

#### Johnson County- Non MSA

The bank originated an adequate level of community development loans in the Johnson County assessment area considering the challenges of distressed and underserved middle-income geographies, as well as moderate-income geographies that comprise the County. During the evaluation period, the bank made 15 community development loans totaling \$857 thousand. There were 15 small business loans with eight of those loans supporting business retention in the distressed middle-income geographies in 2012, 2013, and 2014. Two loans were in moderate-income geographies and five were in middle-income geographies that were not distressed in 2011. Community development loans represent approximately 2.4% of Tier 1 Capital.

#### **Number and Amount of Qualified Investments**

Considering the needs and opportunities in the bank's assessment areas and the bank's performance context and capacity, the bank's performance is adequate for both assessment areas. The bank's investments are meaningful and support the needs of low- and moderate-income individuals.

#### Carter and Washington Counties - Johnson City Partial MSA

The level of qualified investments for Carter and Washington counties is adequate. The bank has 16 current period investments in the form of donations to non-profit organizations totaling \$4 thousand that provide services to low-and moderate-income people through a battered women's shelter and organizations supporting disadvantaged youth. There are no prior period investments.

#### Johnson County- Non MSA

The level of qualified investments for Johnson County is adequate. The bank has two current period investments in the form of donations to non-profit organizations that provide shelter to battered women and food to low- and moderate-income people totaling \$1.5 thousand. There are no prior period investments.

#### **Extent to Which the Bank Provides Community Development Services**

The bank provides an adequate level of community development (CD) services through its branches, products, services, and activities with local organizations that support community development and services to low- and moderate-income people.

### Carter and Washington Counties – Partial MSA

The bank's CD services were adequate for the Carter and Washington county assessment area. The bank maintained one existing branch in a designated moderate-income geography. The branch office's presence in the geography assisted in the stabilization of the area. The bank offers a variety of consumer and some commercial banking products and services as described in the CRA Public File.

Bank officers conducted two meetings at the Elizabethton Housing Authority to educate low- and moderate-income adults on credit, budgeting, and saving. Bank officers also discussed saving with fourth and fifth graders at Little Milligan Elementary School, a school where approximately 67% of its students received free or reduced lunch.

### Johnson County- Non MSA

The bank provided adequate CD services in the Johnson County assessment area. The bank has maintained an existing branch in a designated middle-income distressed and underserved geography during the designated years of 2012, 2013, and 2014. The branch offers a variety of consumer and some commercial banking products and services as described in the CRA Public File. The branch office's presence in the area assists in the stabilization of the geography.

One bank employee participated with the Johnson County 4-H Club in conjunction with the Johnson County Middle School to offer *On My Own*, a financial education simulation for all seventh graders. The simulation is designed for students to experience the reality of adulthood. Each student chooses a hypothetical occupation and using the average income for that occupation, the student must pay a month's expenses including housing, utilities, transportation, food, etc. Approximately 62% of the student body is on reduced or free lunch. The 4-H Club is a program that supports young people from elementary school through high school with programs designed to shape future leaders and innovators.

### **Responsiveness to Community Development Needs**

The volume and responsiveness of the bank to the CD needs of both assessment areas is adequate as a whole and per assessment area. The bank is aware of affordable housing needs, small business needs, and the need for services to low- and moderate-income people in both assessment areas. Community contacts consistently rank affordable housing as the most pressing need in the assessment areas and the Bank has supported affordable housing. The bank's locations in moderate- and distressed middle-income areas are reasonably accessible to low- and moderate-income individuals. Full service operations at each location, the hours of operation, and onsite ATMs also help to ensure accessibility of banking services. Online banking features further support accessibility by allowing customers to access their accounts, transfer funds and pay bills remotely.

## **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal Savings Association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.