



PUBLIC DISCLOSURE

November 18, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Newport Federal Bank
Charter Number 702892

170 West Broadway
Newport, TN 37821

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 major factors supporting this rating include:

- The institution's average loan-to-deposit ratio is more than reasonable given the institution's size, financial condition, and assessment area credit needs.
- A substantial majority of the residential mortgage loans (purchase and refinance) originated by the institution are to borrowers within its assessment area.
- The institution's lending reflects reasonable penetration among individuals of different income levels including low- and moderate-income borrowers, given the demographics of the assessment area.
- The geographic distribution of the institution's loans reflects reasonable dispersion throughout the assessment area.

SCOPE OF EXAMINATION

This Performance Evaluation is an assessment of the record of Newport Federal Bank (Newport Federal) in meeting the credit needs of the communities in which it operates. We evaluated Newport Federal's performance using Small Bank performance criteria, which includes the lending testing. The lending test evaluates the thrift's record in helping to meet the credit needs of its assessment area (AA) through its lending activities. The evaluation period covers June 6, 2011 to October 6, 2015. Newport Federal has one designated AA, which received a full-scope review.

We identified the bank's primary product as residential mortgage (purchase and refinance) loans based on the number and dollar volume of loans originated from January 1, 2013, through June 30, 2015. The lending test analysis is based on demographic breakdown report generated by Newport Federal. The report covered all real estate loans (purchase and refinance) made to all borrowers from January 1, 2010 through October 6, 2015. The primary loan product originated during this review period was compared to 2010 Census data. We also used internal bank reports and other information from governmental websites for our assessment. Furthermore, we contacted two members of the community to better assess the needs of the community and the opportunities for financial institutions to lend and provide services to the area.

DESCRIPTION OF INSTITUTION

Newport Federal is a federally chartered, stock savings bank established in 1934 and headquartered in Newport, Cocke County, Tennessee. The bank is wholly owned by United Tennessee Bankshares, Inc. (UTBI), a unitary, non-diversified savings and loan holding company.

There have been no changes in the institution's corporate structure and no offices have opened or closed since the last Community Reinvestment Act (CRA) performance evaluation dated June 6, 2011, when the Institution received a "Satisfactory" rating.

The institution's main office and two branches are located in Newport (Cocke County, TN). Newport federal operates as a traditional savings association, with a primary focus on mortgage lending and deposit acceptance.

As of September 30, 2015, the institution reported total assets of approximately \$194.6 million. The loan portfolio totaled \$94.7 million, representing 48.7% of total assets. Interest bearing bank balances and investment securities, primarily US treasury and agency securities comprise 5.1% and 42.5% respectively of the remaining earning assets. Residential real estate secured loans continue to represent a significant portion of the loan portfolio at 81.3%.

There are no known financial or legal impediments that would affect Newport Federal's ability to meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREA(S)

Newport Federal's AA consists of all of Cocke County, Tennessee. This rural area is located, approximately 50 miles northeast of Knoxville, Tennessee just off Interstate 40 and not included in a Metropolitan Statistical Area (MSA). According to the 2010 Census, the area is comprised of eight census tracts with income designations, including three moderate-income census tracts and five middle-income census tracts. There are no low- or upper- income census tracts. The AA meets regulatory requirements and does not reflect illegal discrimination or arbitrarily exclude low- or moderate-income areas.

Economic conditions in the AA are unfavorable when compared to the state and national unemployment rates. According to the US Bureau of Labor Statistics, as of September 2015, the unemployment rate for Cocke County was 7.4% (not seasonally adjusted), compared to the state and national unemployment rates of 5.7% and 5.1%, respectively, for the same period. Large area employers include Cocke County Schools, ConAgra Foods, Walmart, Newport Medical Center, Cocke County Government, and Food City.

Newport Federal encounters substantial competition from many other financial institutions within the assessment area. According to the June 30, 2015 FDIC Market Share Report, Newport Federal is one of five financial institutions in this small town. The other four institutions within the AA are National Bank of Tennessee, US Bank National Association, Capital Bank National Association, and Tennessee State Bank. As of June 30, 2015, all institutions held approximately \$475 million in deposits within the assessment area. Newport Federal has the largest deposit market share in the AA, with 36.58% of the total deposits.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Newport Federal's net loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition and AA credit needs. Newport Federal's net LTD ratio averaged 57.53% over the 17 quarters since the last CRA examination, with a quarterly high of 65.29% at June 30, 2011, and a quarterly low of 53.21% at June 30, 2015.

Newport Federal's net LTD ratio compares favorably with the other community institution of similar size, location and product offerings. Newport Federal ranks first to the other similarly situated institution serving the same assessment area. The other institution had a quarterly average net LTD ratio of 51.69%. The institution's LTD ratios reflected a high of 68.78% at June 30, 2011 and its lowest ratio was 42.04% at June 30, 2015 for the same period of review.

There are three other institutions in the Cocke County area per FDIC's deposit market share report. The institutions are U.S. Bank National Association, Tennessee Bank and Capital Bank, National Association. These institutions have deposits outside of the Cocke County market while Newport Federal and the National Bank of Tennessee have deposits only in the Cocke County market. Additionally, the three institutions not included in the review of LTD and other aspects of this CRA review have far greater assets than the one institution which is considered to be similarly situated.

The following table reflect Newport Federal's and the similarly situated institution's net LTD ratios over the period of June 30, 2011, through June 30, 2015.

Loan-To-Deposit Ratios		
Institution	Total Assets (in 000s) as of 6/30/15	Average Loan-to-Deposit Ratio
Newport Federal Bank	\$194,685	57.53%
National Bank of Tennessee	\$140,751	51.68%

Source: Institution Reports of Condition for the 17-quarter period from June 30, 2011 to June 30, 2015.

Lending in Assessment Area

A substantial majority of the residential mortgage loans originated by Newport Federal during the review period of January 1, 2013 through June 30, 2015, are to consumers within its AA. Based on the bank's demographic reports, Newport Federal originated 304 or 72.90% of loans within its AA.

The following table reflects Newport Federal's lending within the AA by number and dollar amount of loans originated during the evaluation based on our sampling.

Lending in Cocke County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	126	65.97	65	34.03	191	11,365	66.57	5,708	33.43	17,073
Refinance	178	78.76	48	21.24	226	13,236	81.94	2,918	18.06	16,154
Totals	304	72.90	113	27.10	417	24,601	74.04	8,626	25.96	33,227

Source: Newport Federal Bank – Demographics Breakdown Report – All Borrowers; closing dates 1/1/10 to 10/6/15

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

Newport Federal's lending reflects reasonable penetration among individuals of different income levels including low- and moderate-income borrowers, given the demographics of the AA. Our review of all purchase and refinance loans made during the review period indicated 6.35% of purchase loans were made to low income borrowers compared to the demographic comparator at 10.13%. For refinance loans, Newport Federal made 8.99% to low-income borrowers compared to the demographic comparator at 6.86%. Newport Federal made real estate purchase loans to 15.08% of moderate-income borrowers compared to the demographic comparator at 25.11%. Newport Federal made refinance real estate loans to 18.54% of moderate-income borrowers compared to the demographic comparator at 14.38%.

Newport Federal has remained competitive with the refinance real estate loan product and has outpaced the demographic comparator. This is attributed to the low rate environment and the loan demand from borrowers who meet the criteria for those lower rates. Newport Federal has remained competitive with real estate purchase loans; however, the demand has not been as great as refinanced loans. There are fewer families in the Cocke County area in the market for purchasing homes. Newport Federal has been successful in meeting the credit needs of low and moderate income borrowers. The Newport Federal continues to ensure they offer loan products that will meet the demands of all borrowers regardless of their defined income levels.

The following table compares the results of our review and calculations from the bank's demographic breakdown report to 2010 Census data of the AA:

Borrower Distribution of Residential Real Estate Loans in Cocke County AA								
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
Purchase	10.13	6.35	25.11	15.08	20.69	10.32	31.72	68.25
Refinance	6.86	8.99	14.38	18.54	29.08	17.98	36.93	54.49

Source: Newport Federal Bank – Demographic Breakdown Report – All Borrowers – Closing Dates from 1/1/10 to 10/6/1; HMDA 2013 aggregate

Geographic Distribution of Loans

The geographic distribution of Newport Federal's loans reflects reasonable dispersion throughout the AA.

There are no low- or upper-income census tracts in Newport Federal's AA. Therefore, our analysis focused on the bank's performance in moderate-income census tracts. Based on our sample, Newport Federal originated 34.13% of real estate purchase loans and 39.89% real estate refinance loans in the moderate-income census tracts. Newport's percentage for refinanced loans in the moderate census tracts exceeds the demographic comparator of 37.58%. For purchase loans, Newport Federal's percentage of 34.13 does not exceed the demographic comparator of 49.78%.

The following table reflects the geographic distribution of 304 loans originated by Newport Federal within its AA during the review period of January 1, 2013 through October 6 2015. The total number of loans originated in the moderate income census tracts was 114.

Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Purchase	0.00	0.00	49.78	34.13	50.22	65.87	0.00	0.00
Refinance	0.00	0.00	37.58	39.89	62.42	60.11	0.00	0.00

Source: Newport Federal Bank – Demographics Breakdown Report (for review period 1/1/2013 to 10/6/2015); 2010 Census data

Responses to Complaints

There are no consumer complaints related to the bank’s Community Reinvestment Act performance during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 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 an 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 Newport Federal helping to meet community credit needs.