

PUBLIC DISCLOSURE

September 7, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Peoples National Bank of LaFollette
Charter # 12467**

**100 West Central Avenue, P. O. Box 1221
LaFollette, Tennessee 37766**

**Office of the Comptroller of the Currency
Nashville Field Office
5200 Maryland Way, Suite 104
Brentwood, Tennessee 37027**

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 **Peoples National Bank of LaFollette** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **September 7, 1999**. 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 **Peoples National Bank of LaFollette's** CRA rating is based upon the institution's:

- C Adequate loan-to-deposit ratio;
- C Excellent proportion of lending in its assessment area;
- C Loan distribution to borrowers of different incomes exceeds standards for satisfactory performance; and
- C Satisfactory record of lending to all segments of its assessment area.

DESCRIPTION OF INSTITUTION

Peoples National Bank of LaFollette (PNB) is a wholly owned subsidiary of Peoples National Bank of LaFollette Financial Corporation, a one-bank holding company (HC) located in the bank's main office in LaFollette, Tennessee. PNB is a community banking institution that serves one contiguous area including all areas of Campbell County located south of Cumberland Mountain, and the portion of Anderson County that surrounds the city of Clinton, which is adjacent to Campbell County to the southeast.

The bank's financial condition is characterized by total assets of \$101 million, net loans of \$50 million (fifty percent of total assets), total deposits of \$86 million and a net income of \$564 thousand, as of the quarter ended June 30, 1999. PNB's primary focus is on residential real estate lending, commercial, nonfarm nonresidential real estate lending, consumer lending, and deposit services. The bank offers a full range of credit products including one-to-four family residential, consumer, commercial real estate, and other general business loans.

As indicated above, PNB's loan portfolio is centered in loans secured by 1-4 family residential real estate, commercial, nonfarm nonresidential properties, and other types of consumer loans. This is based on June 30, 1999 Report of Condition (Call Report) information and is summarized below in **Table 1**. At that date, approximately seventy-sixty percent of PNB's loan portfolio was centered in loans secured by 1-4 family residential properties, commercial and industrial loans, and loans secured by nonfarm nonresidential properties.

Table 1

Types of Loans Outstanding as of June 30, 1999

Loan Type	Amount (000-s)	Percent
Nonfarm Nonresidential Properties	\$3,968	7.90%
1-4 Family Residential Properties	\$26,876	53.50%
Single Payment, Installment, & Student Loans	\$6,868	13.67%
Commercial & Industrial Loans	\$7,347	14.62%
Construction & Land Development	\$4,074	8.11%
Other	\$1,103	2.20%
TOTAL LOANS	\$50,236	100.00%

PNB operates four full service offices, including the main office located at 100 West Central Avenue, LaFollette, Tennessee 37766. Three of the offices are located in Campbell County along the Highway 9 corridor within the city limits of LaFollette and Jacksboro. The fourth office is located in the city of Clinton, located in Anderson County, about 20 miles southeast of the main office in LaFollette. PNB has three ATM machines, located at the Main Office in LaFollette, the Jacksboro Office and the Clinton Office. PNB has not opened and closed any offices during the assessment period.

PNB received a Satisfactory CRA Rating as a result of the preceding OCC Performance Evaluation as of July 23, 1996. No known legal or financial circumstances exist that would impede the bank's ability to help meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA

PNB's assessment area is comprised of one contiguous geography, which encompasses all of Campbell County south of Cumberland Mountain and portions of Anderson County that encompass the city of Clinton. The physical barrier of the Cumberland Mountain excludes two Block Numbering Areas (BNAs) in Campbell County, 9502 and 9503. This represents only 13% of the county's population. Two other banks that meet the needs of that community serve these BNAs. Three census tracts (CTs) are included in Anderson County. Anderson County is part of the Knoxville Metropolitan Statistical Area (MSA), but Campbell County is not. The assessment area meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income (LMI) BNAs or CTs.

Description of the Assessment Area within Campbell County

Campbell County is approximately 45 miles north of Knoxville off of Interstate 75, located in eastern Tennessee on the Kentucky border. PNB's assessment area within Campbell County has nine block numbering areas (BNAs), of which three (33%) were designated moderate-income and six (67%) were designated middle-income as a result of the 1990 Census. Campbell County does not contain any low- or upper-income BNAs according to the Department of Housing and Urban Development. The 1990 Census reported the population of PNB's assessment area within Campbell County at 30,739. This area had approximately 9,000 families of which 30% are low-income, 18% are moderate-income, 21% are middle-income, and 31% are upper-income. Twenty-five percent of Campbell County households are below the poverty level with 35% receiving social security and 15% getting public assistance. The statewide, adjusted non-metropolitan statistical area median family income was \$33,200 for 1997 and \$34,500 for 1998.

Campbell County is predominately rural and the job market is relatively poor compared to other counties in the area. The local job market is depressed, with most available jobs low wage positions. Many local residents commute to Knox and Anderson Counties to obtain professional employment. The local unemployment rate on July 31, 1999 is 7.6% according to the LaFollette Chamber of Commerce and is above the state average of 4.0%. Primary industries include manufacturing, retail and service. The major employers are A & S Steel Buildings, Glenoit Mills and Tyson. PNB's competition in Campbell County consists of three community banks, and a branch office of a regional bank. PNB ranks fourth of five banks in deposit market share with 19% of total deposits^a.

Description of the Assessment Area within Anderson County

Anderson County is located southeast of Campbell County and adjacent to both Campbell County and Knox County. Anderson County is included in the Knoxville MSA^b, but Campbell County is not. PNB's assessment area within Anderson County includes three census tracts (CTs); 208, 209.01, and 209.02, which encompasses the area surrounding the city of Clinton. Within the assessment area, one (33%) census tract is moderate-income and two (67%) are middle-income. The 1990 Census reported the area population at 13,425. The assessment area had approximately 4,000 families of which 24% are low-income, 19% are moderate-income, 25% are middle-income, and 31% are upper-income. Eighteen percent of households are below the poverty level with 34% receiving social security and 8% getting public assistance. The Knoxville MSA adjusted median family income was \$40,600 for 1997 and \$42,300 for 1998.

Anderson County is a diverse industrial area with a much better job market than available in Campbell County. A high percentage of jobs available are professional and technical with good salaries. Three Department of Defense plants in Oak Ridge employ the largest percentage of the work force in the county. Other significant industries include manufacturing, retail and service. The major employers in the Clinton area are Eagle Bond Mfg.; DICO, Inc.; and Allied Film & Video. The local unemployment rate on July 31, 1999 is 3.6% according to the Anderson County Chamber of Commerce and is slightly below the state average of 4.0%. PNB's competition in Anderson County is much greater than in Campbell County consisting of five large banks, two savings associations, and one local community bank. PNB ranks last in deposit market share with only 1.6% of total deposits^c.

^a Federal Deposit Insurance Corporation: Institution Office Deposits (June 30, 1998)

^b Located in the east central section of Tennessee, Knoxville is the population and commercial center for the state's eastern region. The metro area comprises six counties Anderson, Blount, Knox, Loudon, Sevier, and Union. With an estimated 661,000 residents in 1998, Knoxville is the third largest metropolitan area in Tennessee, behind Nashville and Memphis. Located near the scenic Great Smoky Mountains (along the Appalachian Range), which marks the boundary between Tennessee and North Carolina, Knoxville has developed as a popular tourist destination. It is also a major industrial base, specializing in industrial and transportation equipment and apparel, with manufacturing jobs making up 15.2% of total employment. Knoxville is also headquarters to the Tennessee Valley Authority, the nation's largest utility.

COMMUNITY CONTACTS - As part of our examination, we obtained information from community leaders regarding local economic conditions and community credit needs. We contacted a local community official to identify community credit needs. This contact indicated most of the community credit needs were being adequately met by the local financial institutions and this person spoke favorably of all local banks' involvement in the community. In addition, we used four other community contact reports performed by other regulatory agencies within the past two years. Most of these contacts indicated that more affordable new and/or existing homes for low- and moderate-income individuals were needed in both Campbell and Anderson Counties. These contacts were also complimentary of the local banks in providing general banking services and meeting credit needs in both Campbell and Anderson Counties.

INCOME DEFINITIONS

Throughout this evaluation, we use the following definitions for the various income levels. These levels are defined in the Community Reinvestment 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.

^c Federal Deposit Insurance Corporation: Institution Office Deposits (June 30, 1998)

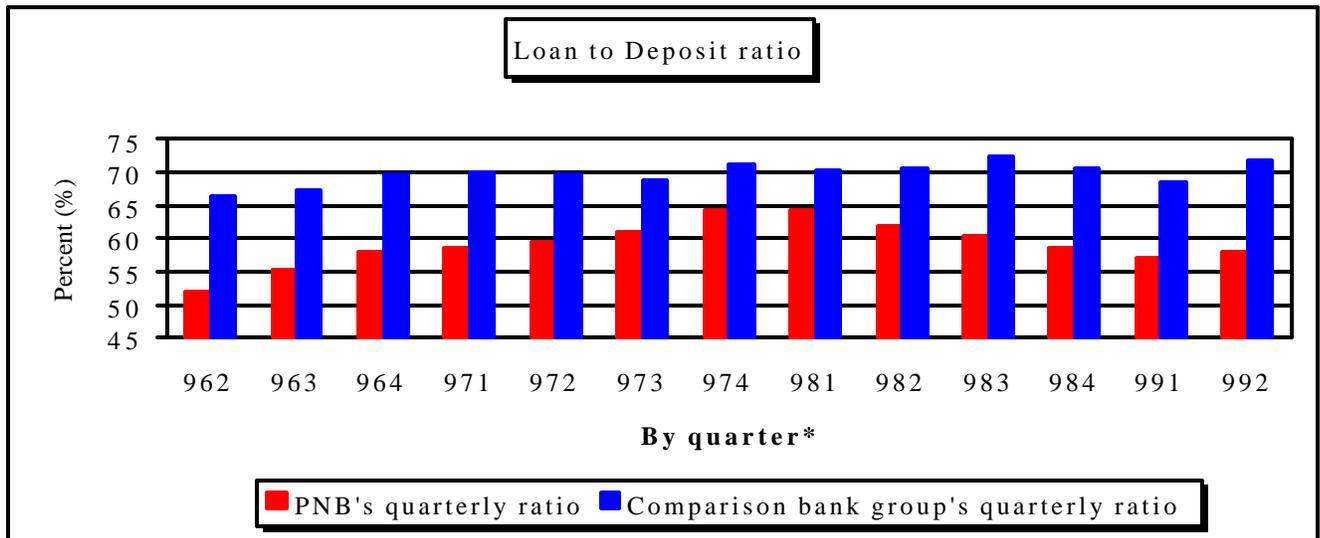
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

- C PNB's loan to deposit (LTD) ratio is reasonable considering the institution's size and local economic conditions.

For the thirteen quarters since the preceding CRA Performance Evaluation (July 23, 1996), PNB's quarterly average LTD ratio was fifty-nine percent. There were no banks of similar size with the same assessment area as the subject institution. Therefore, we selected two national banks and one state chartered bank of similar size that operated in Campbell County and considered those to be PNB's peers for the purposes of this evaluation. Through the quarter ending June 1999, PNB consistently ranked third of the four banks comprising this comparison group. As **Figure 1** indicates, PNB's average quarterly LTD ratio was fifty-nine percent, slightly lower than the seventy of the average of the comparison group. Although somewhat lower, PNB's average ratio followed the same trend lines as the comparison group and is satisfactory.

Figure 1



* The first two digits indicates the year, the third digit indicates the quarter. For example, 962 indicates ending of the 2nd quarter in 1996, or 06/30/1996.

Lending in Assessment Area

C Overall lending levels reflect excellent responsiveness to community credit needs.

We reviewed a sample of loans secured by 1-4 family residential properties (53 loans for \$1.9 million) originated by PNB from January 1, 1997, through December 31, 1998. We also reviewed a sample of commercial and loans secured by nonfarm nonresidential properties (21 loans for \$728 thousand) originated by PNB from January 1, 1997, through December 31, 1998. The following represents the findings of that review:

Figure 2

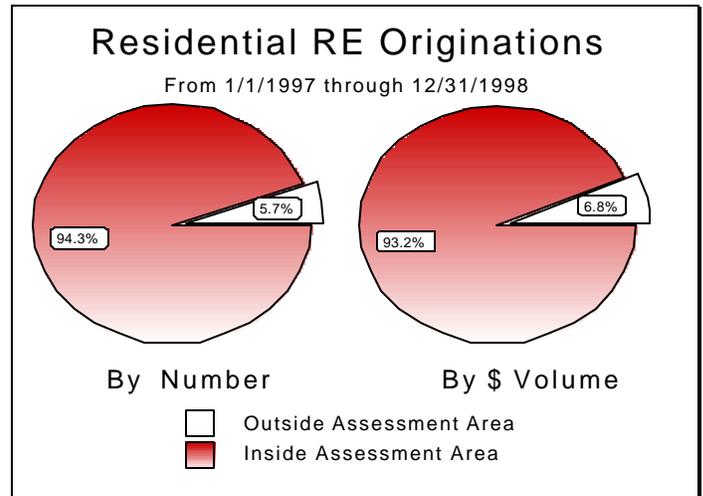
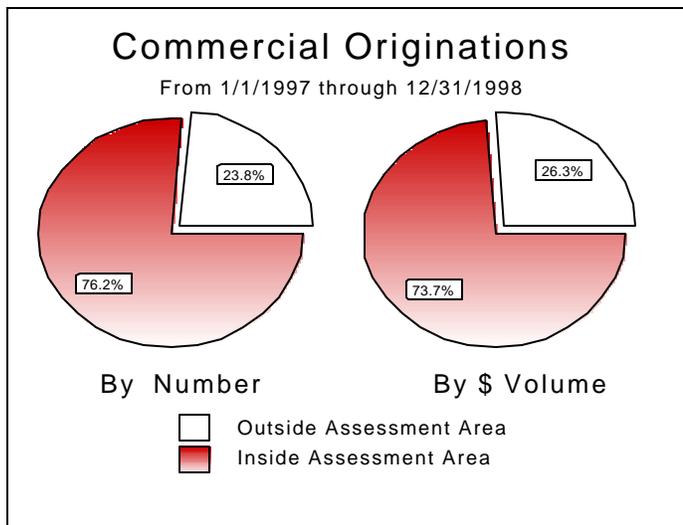


Figure 3



Residential Real Estate

Ninety-four percent by number of originations and ninety-three percent by dollar volume of originations were for loans secured by 1-4 family residential real estate located within the bank's assessment area as shown in **Figure 2**.

Commercial and nonfarm nonresidential real estate

Seventy-six percent by number of originations and seventy-four percent by dollar volume of originations were for loans for commercial and loans secured by nonfarm nonresidential real estate located within the bank's assessment area as shown in **Figure 3**

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

C PNB exceeds the standards for satisfactory performance in this category.

The bank lends to individuals of all income groups and businesses of different sizes. To analyze PNB's lending patterns we utilized the same sample of loans as discussed above. This sample consisted of fifty loans that totaled \$1.8 million originating between January 1, 1997 and December 31, 1998, and secured by 1-4 family residential real estate. This sample also included and sixteen loans totaling \$536 thousand originated from January 1, 1997, through December 31, 1998, for commercial and nonfarm nonresidential real estate.

Lending to Borrowers of Different Incomes

C PNB's loan distribution to borrowers of different incomes exceeds standards for satisfactory performance.

We reviewed the fifty residential real estate loans originated by the bank during the above time period to determine the income level classifications of borrowers. Borrower income classifications were assigned in accordance with the definitions outlined earlier in this report using the Department of Housing and Urban Development's (HUD) median family income (MFI) figure for nonmetropolitan areas of Tennessee for loans originating in Campbell County and the Knoxville MSA for loans originating in Anderson County according to **Table 2**:

Table 2

Assessment Area Median Family Income (MFI)		
Assessment Area	1997 Updated	1998 Updated
Campbell County	\$33,200	\$34,500
Anderson County (Knoxville MSA)	\$40,600	\$42,300

As **Table 3** indicates, PNB volume of loans to borrowers of low- and moderate-income levels was forty-eight percent of total residential real estate loans reviewed. Approximately forty-seven percent of families in the bank's assessment area were at those levels as of the 1990 Census, the most recent data available. The demographic characteristics of Campbell and Anderson Counties when compared to the bank's 1-4 family residential real estate originations, reflect very high performance with respect to the

banks lending to borrowers of different income levels.

The representation of loans to low income borrowers (18%) is less than the percent of families in the low-income category (28%). According to the 1990 Census, twenty-five percent of Campbell and eighteen percent of Anderson Counties' families within PNB's assessment area were below the poverty level. The credit needs of the population below the poverty level are not discounted. However, the low-income level makes repayment of housing related credit problematic.

Table 3

Distribution of Loans by Borrower Income Level in Assessment Area ^d			
Income Level	% Families in Assessment Area	# of Loans	% of Loans
Low Income	28.0%	9	18.0%
Moderate Income	18.6%	15	30.0%
Middle Income	22.4%	12	24.0%
Upper Income	31.0%	12	24.0%
Unknown ^e	0.0%	2	4.0%
Total	100.0%	50	100.0%

Lending to Businesses of Different Sizes

C The distribution of PNB's commercial and loans secured by nonfarm nonresidential real estate loans based on loan size is good.

We reviewed a sample of sixteen commercial and nonfarm nonresidential real estate originated between January 1, 1997, and December 31, 1998, 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. However, we were unable to perform an accurate analysis by business revenues. PNB does not consistently require small businesses to provide current financial information including business revenues. Only two of sixteen (13%) of the loans sampled had this information in the loan file. As an alternative, we looked at the distribution of loans to businesses by size of loan.

^d For purposes of this analysis, the percentages of the families within each income category, were calculated using the combined numbers of families for PNB's assessment area in Campbell and Anderson Counties.

^e Borrower income was not available.

A majority of the number, eighty-one percent, of commercial and nonfarm nonresidential real estate loans had original amounts of less than \$100,000. Seventy-five percent had original amounts of less than \$25,000. This indicates the availability of small dollar business loans. Nineteen percent had original amounts between \$100,000 and \$250,000. This indicates that PNB's primary lending of commercial and nonfarm nonresidential real estate lending is to small businesses.

Lending to Borrowers in Different Geographies

C PNB has a satisfactory record of lending to all segments of its assessment area.

We utilized the same sample of loans secured by 1-4 family residential properties originated by the bank from January 1, 1997 through December 31, 1998, and loans secured by commercial and industrial or nonfarm nonresidential properties originated by the bank from January 1, 1997 through December 31, 1998, to determine the distribution of lending activity by BNA/CT. **Table 4** illustrates this distribution by number and dollar volume of loans originated and purchased. The last row of this table also shows the distribution by income levels of the BNAs/CTs in PNB's assessment area. As discussed earlier in this report, neither Campbell or Anderson Counties within the bank's assessment area, have any BNAs/CTs designated low- or upper-income. PNB originated at least one loan in each of the twelve BNAs/CTs. The bank's level of penetration throughout its assessment area and distribution of credit is reasonable and consistent with the bank's ability to help meet the credit needs of its community.

Table 4

<i>Loans Within Each BNA/CT by Income Level for the Assessment Area</i>										
	Low Income ^f		Moderate Income		Middle Income		Upper Income ^f		Total	
	#\$	%	#\$	%	#\$	%	#\$	%	#\$	%
1-4 Family residential real estate loans										
Total loans (#)	0	0%	17	33%	33	67%	0	0%	50	100%
Total Loans (\$)	0	0%	\$487	27%	\$1,320	73%	0	0%	\$1,807	100%
Commercial and industrial or nonfarm nonresidential loans										
Total loans (#)	0	0%	5	31%	11	69%	0	0%	16	100%
Total Loans (\$)	0	0%	\$275	51%	\$261	49%	0	0%	\$536	100%
BNAs/CT	0	0%	4	33%	8	67%	0	0%	12	100%

Response to Consumer Complaints

PNB has not received any CRA-related complaints during the current evaluation period.

Record of Compliance with Antidiscrimination Laws

We performed a Fair Lending file analysis using a benchmark approach. Using a sample of denied and approved used car loans, we compared denied female applicants to approved male applicants. The analysis was performed using standard agency procedures. We did not identify any discriminatory lending practices or violations of the substantive provisions of Federal antidiscrimination laws and regulations.

^f Campbell and Anderson Counties, within PNB's assessment area do not have any BNAs/CTs designated low- and upper-income. \$ (in thousands 000's)