



Comptroller of the Currency
Administrator of National Banks

Small Bank Procedures

Nashville Field Office
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Brentwood, Tennessee 37027

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PUBLIC DISCLOSURE

June 30, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Erwin National Bank
Charter #10583
201 South Main Avenue
Erwin, Tennessee 37650**

**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 Community Reinvestment Act (CRA) performance of the **Erwin National Bank** prepared by **The Office of the Comptroller of the Currency**, as of June 30, 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 bank's performance was reviewed for the period of March 8, 1996, to June 30, 1998. The institution's average loan-to-deposit ratio is reasonable. A substantial majority of the bank's loans and lending activities are within the bank's assessment area. The distribution of borrowers reflects reasonable penetration among individuals of different income levels, including low- and moderate-income, and businesses of different sizes.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	ERWIN NATIONAL BANK 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.		

DESCRIPTION OF INSTITUTION

Erwin National Bank, headquartered in Erwin, Tennessee, serves the communities within Unicoi County, Tennessee. The bank has two offices, the main office in Erwin and a branch office in the town of Unicoi.

Average assets were \$71 million as of June 30, 1998, with deposits of \$59 million and net loans of \$30 million. Lending is primarily for 1-4 family residential purposes. The loan portfolio is comprised of:

65%	Secured by real estate, construction, and home equity-both commercial & consumer
9%	Commercial and industrial loans
26%	Consumer loans

There are no financial or legal impediments restricting the lending activities of the bank.

DESCRIPTION OF ASSESSMENT AREA

Erwin National Bank has defined its assessment area as Unicoi County in the State of Tennessee, a part of the Johnson City-Kingsport Metropolitan Statistical Area (MSA). The bank's assessment area meets the legal requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

The assessment area contains 4 census tracts. Based on 1990 census information, census tract 0801 is considered moderate-income, and tracts 0802, 0803 and 0804 are considered middle-income.

The area continues to experience slow growth. Population in Unicoi County at 17,135 as of December 31, 1997 has increased 4.7% since 1980. The current unemployment rate in Unicoi County is approximately 7.0%.

One governmental representative was contacted to obtain information on community credit needs. The contact stated that community needs are being met and that the bank is active in supporting community development and participates in local projects.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Ratio

The average loan-to-deposit ratio for the period from December 31, 1995, to June 30, 1998, was 46.35%. In light of the bank's performance context, this ratio is reasonable as lending opportunities are limited. This is an increase from the average loan to deposit ratio of 43.60% calculated during the previous CRA Evaluation period in 1995. The loan to deposit ratio has exhibited an increasing trend over the last two years and was as high as 47.95% as of June 30, 1998.

Lending in the Assessment Area

A majority of the bank's lending is within its defined assessment area. Our review indicated the bank exceeds the standards for satisfactory performance with 92% of the number of loans, and 92% of total loan dollars are originated within the assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Loans were made to borrowers of low-, moderate-, middle-, and upper-income levels. To assess lending to borrowers of different incomes, a sample of consumer loans was reviewed. This sample included 40 instalment loans originated in the past 12 months, and all residential real estate loans originated in 1997. A summary of findings is provided in the following chart:

	Assessment Area Composition	Residential Loans		Installment Loans	
		<i>number</i>	<i>dollar</i>	<i>number</i>	<i>dollar</i>
Low	29%	15.05%	5.17%	35.00%	22.26%
Moderate	16%	34.11%	17.82%	45.00%	13.27%
Middle	16%	30.77%	33.16%	32.50%	38.08%
Upper	39%	20.07%	43.85%	15.50%	26.39%

This loan distribution is reasonable compared to the composition of the assessment area. The 1998 Department of Housing and Urban Development (HUD) updated MSA Median Family Income level of \$35,500 was used.

Erwin National Bank is very active in mortgage lending in its communities. As of June 30, 1998, there were \$13,360,000 in mortgage loans to consumers. This represents nearly one half of all outstanding loans. As evidenced by the above data, loans are originated to all income levels with approximately 50% originated to low- and moderate-income borrowers.

The bank makes available loans of various amounts to businesses of different sizes. A sample of commercial loans to 16 different borrowers was reviewed. Loans ranging from \$2,500 to \$488,000 were made to business of different sizes for various purposes. The majority of the bank's commercial loans are to small businesses with less than \$1 million in revenues.

Geographic Distribution of Loans

Distribution of credit within the assessment area was reasonable. The bank's lending penetrates all segments of the assessment area. This was determined following a review of the bank's 1997 residential real estate loan application register. Distribution of loans throughout the 4 census tracts in the assessment area is as follows:

Residential RE Lending	<i>Number Loans</i>	<i>Percentage</i>
Census Tracts In Assessment Area		
0801.00	36	11%
0802.00	99	29%
0803.00	48	14%
0804.00	127	38%
Total Assessment Area	310	92%
Total Out Assessment Area	26	8%

Census tract 0804.00 is comprised of the town of Erwin, with census tract 0802.00 being the surrounding area. This accounts for the increased levels in the number of loans originated in these census tracts.

Review of Complaints

The bank has received no CRA complaints.

Other

Our fair lending review disclosed no violations of the substantive provisions of anti-discrimination laws and regulations.